

*Co-operative
Independent
Commission
Report*



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TERMS OF REFERENCE AND MEMBERSHIP

THE INDEPENDENT COMMISSION

THE Commission was established in accordance with the terms of the following resolution adopted at the Edinburgh Congress of the Co-operative Union Ltd. in 1955:—

Preamble

"That this Congress notes the changing pattern in retail distribution in Great Britain with the continued growth of large scale retailing under national control, and having received the report of the Central Executive on the outcome of joint discussion between the Co-operative Wholesale Society Ltd., the Scottish Co-operative Wholesale Society Ltd. and the Co-operative Productive Federation Ltd., on the subject of co-operative production and marketing agrees in principle that more decisive action is necessary if progress is to be made towards securing the utmost advantage from co-operative productive resources, resolves:

Clause (1)

"That the Central Executive shall establish by invitation an Inquiry Commission of suitable persons not engaged in co-operative management or administration, who shall be charged with the responsibility of surveying the whole field of co-operative production and marketing, both wholesale and retail.

Clause (2)

"That the Inquiry Commission shall prepare and submit to the Central Executive for submission not later than the Congress to be held in 1958 a report and recommendations designed to secure the greatest possible advantage to the Movement from its manufacturing, wholesale and retail resources and to propose to the Central Executive such methods and organisation as may be thought best suited to achieve this. Meanwhile, if the Commission desires to submit Progress Reports, then, it will be competent for it to do so.

Clause (3)

"That all members of the Union should supply such information and advice and render such assistance as the Inquiry Commission may request.

"That all members of the Co-operative Union Ltd. be allowed to make written submissions and give oral evidence in support of their submissions if required by the Commission.

Clause (4)

"That the Central Executive be authorised to meet the costs of the Commission and to provide such facilities as may be necessary for the accomplishment of its task."

The original members of the Commission were:—

The Rt. Hon. H. T. N. Gaitskell, C.B.E., M.P. (Chairman).
Miss Margaret Digby, O.B.E.
Professor D. T. Jack, C.B.E., J.P.
Dr. J. B. Jefferys.
Colonel S. J. L. Hardie, D.S.O., LL.D.
Mr. J. T. Murray.
Alderman F. Pette, J.P.

At the request of the Commission, Lady Hall accepted an invitation to become a member in December, 1956. Mr. C. A. R. Crosland was appointed Secretary of the Commission.

The Report of the Commission and the Minority Report of Colonel Hardie are now presented.

P R E F A C E

We have held in all 35 meetings, sitting as a full Commission. There have also been several other sub-committees and group meetings of a less formal character to discuss particular problems.

Members of the Commission have visited a large number of retail societies, federal societies, Branches of Co-operative Retail Services, Scottish Co-operative Wholesale Society Retail Branches, factories, depots and farms of the C.W.S. and the S.C.W.S. and also their headquarters and those of the Co-operative Productive Federation. Members of the Commission also made visits abroad in order to study at first hand the Co-operative Movements of other countries.

We have had formal meetings with representatives of the Central Executive of the Co-operative Union, the C.W.S. Policy and General Purposes, Grocery, and Dry Goods Committees, the S.C.W.S. Grocery and Drapery and Furnishing Committees, the Co-operative Productive Federation, Co-operative Retail Services, the National Co-operative Managers' Association, and the Union of Shop, Distributive and Allied Workers.

We have had discussions throughout two week-ends with groups both of Presidents and Directors, and of chief officials, of retail societies. We have also had less formal consultations with Directors and officials of many Co-operative bodies, with representatives of management organisations, with persons engaged in the private distributive trades, and with other outside experts and economists.

We have received written evidence from the following bodies:—

The Co-operative Union Ltd.,
The Co-operative Wholesale Society Ltd.,
The Scottish Co-operative Wholesale Society Ltd.,
The Co-operative Productive Federation Ltd.,
The Co-operative Insurance Society Ltd.,
The Co-operative Retail Services Ltd.,
The National Co-operative Managers' Association,
The Co-operative Secretaries' Association (North-Eastern Section),

The Women's Co-operative Guild,
The Agricultural Central Co-operative Association,
The Union of Shop, Distributive and Allied Workers,
Forty-one Retail Societies,
and a large number of private individuals.

We both commissioned and were supplied with several background research and statistical documents, notably from the Co-operative Union, the C.W.S. and the S.C.W.S.

On a number of financial points, we circulated a questionnaire to all retail societies. We also circulated two other questionnaires to a small cross-section of societies.

We have relied for our statistical and technical information primarily on Mr. Hough, of the Research and Statistical Department of the Co-operative Union, and Mr. Lambert, of the C.W.S. Market Research Department. We wish to thank the organisations concerned for allowing us to make such free use of the services of these two officers. We are particularly grateful to Mr. Hough and Mr. Lambert themselves. We did not seek nor did they proffer advice on policy issues; but without their expert technical assistance, we could never have obtained the detailed information essential for the accomplishment of our task.

We commissioned two special investigations: one by Mr. Dickinson, of the Cambridge University Department of Applied Economics, into the sources and uses of Co-operative capital and the appropriation of Co-operative income, the other by Mr. Vandome, of the Oxford University Institute of Statistics, into the pattern of Co-operative savings. We are very grateful to these gentlemen for their assistance.

We wish to thank the officials of the Co-operative Union, and especially Mr. Southern and Mr. Hilditch, for giving us so much help on many occasions in many ways.

We are much indebted to the Co-operative Permanent Building Society for allowing us to hold our meetings in their Board Room, and to the Horace Plunkett Foundation for providing us with offices.

More generally, we desire to express our most sincere appreciation of the ready way in which all sections of the Movement, and the

many individuals on whom we called, responded to our requests and provided us freely and frankly with information and advice. This was most encouraging to us, showing as it did a widespread desire that our Report should be as objective and comprehensive as possible.

Finally, we would like to pay a special tribute to our secretary, Mr. C. A. R. Crosland, who has made by far the most important contribution to the preparation of our Report. He has worked untiringly over a long period with great energy, exceptional ability and complete intellectual integrity. We have especially admired the enthusiasm with which he pursued inquiries on behalf of the Commission, his determination to get to the bottom of the problems with which we were confronted, and his capacity for presenting our views concisely and clearly. We could not have been better served. If any one name is to be associated with this Report, it should be his. We desire to express to him our very sincere thanks and appreciation.

Part I.
DIAGNOSIS AND PRINCIPLES

Chapter 1
CO-OPERATIVE PROGRESS :
FACTS AND FIGURES¹

1. INTRODUCTION

In approaching our task, we decided that the first step must be to make a systematic diagnosis of the economic situation of the Co-operative Movement to-day. Many organisations and individuals offered us their own opinions of what was wrong. But these, unfortunately, differed markedly from one another ; in particular, they varied according to whether they reflected the views of the retail or the wholesale wing of the Movement. For this and other reasons, we thought it best to make an independent analysis of our own.

In presenting this, however, we were confronted with a difficulty. We were not asked merely to describe the present condition of the Movement, but to report on its weaknesses and the ways in which they might be remedied. Inevitably, therefore, our analysis of the situation and, indeed, our whole Report tends to concentrate on what is wrong rather than what is right, and to place the emphasis on the unfulfilled potential rather than the progress already made. The result is a somewhat one-sided picture which, unless the circumstances are borne in mind, could easily create a false impression.

For although there is much to criticise, the Movement has many remarkable achievements to its credit. In the last 50 years, membership has risen from 2½ millions to over 12 millions, and retail turnover from under £70 millions per annum to nearly £1,000 millions per annum ; while over £1,000 millions has been distributed in dividend. The Movement now owns over 30,000 shops, 250 factories, and the largest wholesaling organisation in the country. Not content with past successes, it has, since the war, pioneered the introduction of self-service in Great Britain ; and to-day nearly 60% of all self-service shops are Co-operative.

¹One of our members, Dr. Jefferys, has been mainly responsible for the arduous work of collating and organising the statistics supplied to us. The Commission is greatly indebted to him.

It is now leading the retail trade in the development of supermarkets ; and, in one of its own traditional fields, it is building, notably in the New Towns, some of the most impressive department stores in the country.

Most of our readers, being Co-operators, will be familiar with these facts ; and they will not be misled because our Report, owing to the nature of the task entrusted to us, inevitably appears critical in character. We feel sure that, confident in the solid strength of the Co-operative Movement, they would prefer us to be outspoken ; and we trust that they will look upon our recommendations as constructive proposals designed for one purpose only—to enable the Movement to realise to the full the great possibilities which undoubtedly lie before it.

II. RETAIL PROGRESS : (a) THE NATIONAL PICTURE

We attempt in the remainder of this chapter both to provide a factual background for the recommendations in the later chapters, and to illuminate the main areas of weakness in the present position. We discuss first the retail side of the Movement, and then the production and wholesaling activities.

The object of Co-operative retail societies is to provide goods and services to their members and the buying public. We therefore start by comparing the sales of retail societies with total personal expenditure on goods and services.

TABLE 1. Share of Co-operative Retail Societies in Total Expenditure on Goods and Services, 1890-1956.

Year	Co-operative Share Per cent	Year	Co-operative Share Per cent
1890	2.2	1946	5.6
1900	3.1	1948	5.9
1910	3.9	1950	6.5
1920	5.1	1952	6.8
1930	5.5	1954	6.6
1938	6.0	1956	6.8

SOURCE : Based on estimates of consumers' expenditure on goods and services from successive *National Income and Expenditure* Blue Books ; Co-operative sales based on Co-operative Union statistics.

It will be seen that the Co-operative Movement has trebled its share of consumers' expenditure over the past 65 years. But the rate of advance has slowed down to a pronounced extent. In the first

half of the period, the Movement's share more than doubled ; in the second half, it increased by only one-sixth. At this latter rate of progress, the Movement would not attain a 10% share of consumers' expenditure until the year 2020.

We can obtain a still more accurate picture if we examine the Co-operative share, not of total consumers' expenditure, but of total retail trade ; for the former includes, where the latter does not, certain categories of expenditure in which the Co-operative Movement either could not, or has not chosen to, involve itself (e.g., housing, gas and electricity, entertainment, motor-cars, petrol). We may also at this stage introduce other types of retailer into the picture, so that comparisons can be made of the varying rates of progress of different types of retail organisation.

TABLE 2. Estimated Shares of Different Types of Retailer in Total Retail Trade, 1904-1956.

Period	Estimated Shares in Total Retail Trade of			
	Co-operative Societies Per cent	Multiple Shop Organisations Per cent	Department Stores Per cent	Other Retailers Per cent
1904-08 ..	6.0—7.0	5.0—6.0	2.0—3.0	84.0—87.0
1909-13 ..	6.5—7.5	6.5—7.5	2.5—3.5	81.5—84.5
1920-24 ..	7.5—8.5	9.0—10.0	3.0—4.0	77.5—80.5
1925-29 ..	8.5—9.5	11.0—12.0	3.5—4.5	74.0—77.0
1930-34 ..	9.5—10.5	13.0—15.0	4.0—5.0	69.5—73.5
1935-39 ..	10.0—11.0	16.0—18.0	4.5—5.5	65.5—69.5
1947-51 ..	10.0—11.0	19.0—20.0	4.5—5.5	63.5—66.5
1952-56 ..	10.5—11.5	21.0—22.0	4.5—5.5	61.0—64.0

SOURCES AND NOTES :

- (1) Estimates of total retail sales are based on *National Income and Expenditure* data linked with data from the *Census of Distribution*, 1950, A. R. Prest, *Consumers' Expenditure in the United Kingdom, 1900-1919* (C.U.P., 1954), and Richard Stone, *The Measurement of Consumers' Expenditure and Behaviour in the United Kingdom, 1920-1938* (C.U.P., 1954).
- (2) The estimates of retail sales include all goods sold retail direct to the consumer. Certain goods (e.g., alcoholic beverages, motor-cars, petrol, oil) have been excluded as not entering into normal retail trade ; all services are also excluded.
- (3) The estimates of sales of different types of retailer are based on the *Census of Distribution*, 1950, J. B. Jefferys, *Retail Trading in Britain, 1850-1950* (C.U.P., 1954), and Board of Trade indices for the years after 1950.
- (4) The definitions of the different types of retailer are those of the *Census of Distribution*. Chains of public houses or cinemas selling tobacco goods and confectionery have been classed as other retailers. The estimates of the share of other retailers are obtained by difference.

These figures confirm the impression of a marked slowing-down in the rate of Co-operative expansion. In each of the five-year periods from 1909 up to the nineteen-thirties, the Movement's share of trade was more than one-tenth higher than in the preceding period ; but

in the last two periods the increases were zero and one-twentieth. Before the First World War, the Co-operatives and the multiples enjoyed approximately equal shares of the total ; to-day the multiple share is almost double that of the Co-operative Movement.

Since it is the multiple shop organisations which clearly offer the greatest threat to the Movement, we show in the next Table a more detailed comparison of Co-operative and multiple progress during the years before and after the Second World War. The fact which stands out is that the Co-operative share of trade in the years 1954-6 was only some 3% higher than in the years 1937-9 ; the multiple share was some 20% higher.

TABLE 3. Estimated Shares of Co-operative Societies and Multiple Shop Organisations in Total Retail Sales, 1935-1956.

Year	Share in Total Retail Sales of	
	Co-operative Societies Per cent	Multiple Shop Organisations Per cent
1935 . . .	10.1	
1936 . . .	10.3	
1937 . . .	10.5	
1938 . . .	10.8	
1939 . . .	10.9	
1947 . . .	10.2	
1948 . . .	10.4	
1949 . . .	10.5	
1950 . . .	10.9	
1951 . . .	10.9	18.8
1952 . . .	11.3	19.1
1953 . . .	11.2	19.4
1954 . . .	10.9	19.8
1955 . . .	10.9	20.6
1956 . . .	11.1	21.2
		21.3
		21.4
		21.4
		21.7

SOURCES : As for Table 2.

Perhaps the most disturbing feature of these Tables is the relative lack of Co-operative progress during the post-war years. These years show almost the slowest rate of Co-operative expansion of any period in this century ; yet conditions were exceptionally favourable to the Movement. Not only was membership higher by 3-4 millions than before the war, not only did the Co-operative lead in self-service give the Movement an obvious advantage over its competitors, but the economic background had altered in a most propitious manner. The combined effects of full employment and the redistribution of

incomes meant that Co-operative households were better off, both absolutely and relatively to other social groups, than ever before ; and one would have expected this to be reflected in a particularly rapid expansion of Co-operative trade. Unfortunately this did not occur.

We now examine the Co-operative performance by commodity groups. The estimates of commodity sales, in respect both of Co-operative and national trade, are less reliable than those of total retail sales ; but they are sufficiently sound to give a broadly accurate picture.

TABLE 4. Estimated Co-operative Share of Retail Sales by Commodity Groups in 1935, 1950 and 1955.

Commodity Group	1935	1950	1955
	Co-operative Sales as Per cent of National Sales	Co-operative Sales as Per cent of National Sales	Co-operative Sales as Per cent of National Sales
Groceries, provisions, fish, fruit and vegetables, and household stores . . .	15.9	14.6	14.8
Bread and flour confectionery	14.4	14.1	14.6
Meat and poultry	8.9	13.3	10.2
Milk	19.9	31.7	34.2
Chocolate, sugar confectionery and ice cream . . .	2.2	2.4	2.4
Total food and household stores	13.9	15.1	14.5
Tobacco goods	8.2	7.8	8.2
Women's and children's wear	5.7	6.0	5.4
Men's wear	5.7	6.9	6.4
Footwear	9.3	9.0	7.8
Total clothing and footwear	6.3	6.8	6.1
Household durables, furnishings, hardware . . .	5.2	7.7	7.6
Chemists' goods	5.4	8.3	8.3
Other goods and services	3.4	4.4	4.4
Coal	11.4	15.4	14.9
All goods	10.1	10.9	10.9

SOURCES : For national sales by groups of commodities, as for Table 2 ; Co-operative sales are estimates based on Co-operative Union departmental sales analysis.

The general picture is one of discouraging results in clothing and footwear, creditable results in other dry goods, and patchy results in food. In clothing and footwear, two of the three groups show a decline since 1935, and all three a decline since 1950. On the other hand all the remaining non-food groups show substantial advances on 1935, and only coal an appreciable decline since 1950. The picture in food is mixed. Milk has achieved the most rapid expansion of any single commodity; and bread has comfortably maintained its position. But meat has suffered a sharp decline since 1950; and, perhaps most disturbing, the Co-operative share in the traditional groceries' field is lower than in 1935—largely due to a persistent weakness in the fruit and vegetable trade, which now accounts for a larger part of total food expenditure than it did before the war.

One other aspect of this Table calls for comment. The exceptional increases recorded in milk and coal draw attention to what is becoming a noticeable feature of Co-operative trading: namely, the increasing reliance on a few relatively "standardised" commodities, and notably commodities whose sales depend largely on the efficiency of delivery services. Already in 1935, bread, milk and coal—the three most obvious such commodities—accounted for 19.2% of Co-operative compared with 12.7% of national retail sales. Between then and 1955 they further increased their share of Co-operative sales to 21.6%; but their share of national sales fell to 10.8%.

Finally, in Table 5 we compare the Co-operative rate of progress with that of the multiple organisations and other retailers in a number of different trade groups.

This Table confirms what is by now fairly generally known. In the last two decades, the Co-operative Movement has been outpaced by the multiple organisations in all major commodity groups (except chemists' goods). But whereas in food and household durables the relative loss has been only minor (negligible, indeed, in the latter case), in the clothing and footwear trades it has been dramatic. Indeed in the five years 1950 to 1955, when the multiple organisations made a further substantial advance in these trades, the Co-operative share not merely failed to keep pace, but actually declined.

The broad picture may be summed up as follows:—

(a) Despite a large increase in membership and (since 1945) the most favourable background conditions, the Co-operative Movement has only slightly increased its share of trade in the last 20-25 years.

TABLE 5. Estimated Shares of Co-operative Retail Societies, Multiple Shop Organisations and Other Retailers in Total Retail Sales of Different Trade Groups.

Organisation	Share of Trade in		
	1935 Per cent	1950 Per cent	1955 Per cent
Food and Household Stores			
Co-operative Societies	13.9	15.1	14.5
Multiple Shop Organisations	14.5	16.5	17.0
Other Retailers	71.6	68.4	68.5
Women's and Children's Wear			
Co-operative Societies	5.7	6.0	5.4
Multiple Shop Organisations	10.5	21.5	26.5
Other Retailers	83.8	72.5	68.1
Men's and Boys' Wear			
Co-operative Societies	5.7	6.9	6.4
Multiple Shop Organisations	21.0	29.0	31.5
Other Retailers	73.3	64.1	62.1
Footwear			
Co-operative Societies	9.3	9.0	7.8
Multiple Shop Organisations	41.0	47.0	50.5
Other Retailers	49.7	44.0	41.7
All Clothing and Footwear			
Co-operative Societies	6.3	6.8	6.1
Multiple Shop Organisations	16.5	27.0	32.0
Other Retailers	77.2	66.2	61.9
Household Durables & Furnishing			
Co-operative Societies	5.2	7.7	7.6
Multiple Shop Organisations	14.0	20.0	21.5
Other Retailers	80.8	72.3	70.9
Chemists' Goods			
Co-operative Societies	5.4	8.3	8.3
Multiple Shop Organisations	30.0	37.0	38.5
Other Retailers	64.6	54.7	53.2

SOURCES: As for Tables 2 and 4.

(b) The multiple shop organisations have increased their share by a much larger amount over the same period.

(c) The failure of the Co-operative Movement significantly to expand its share has been almost as marked (except for milk) in the food as in the non-food trades; but it is in the latter that the multiple organisations have made their most spectacular progress.

(d) There are striking variations in the Co-operative share of trade as between different commodity groups. The public buys 35% of its

milk from Co-operative societies, 15% of its groceries and bread, 10% of its meat, and 6% of its clothing and footwear. The relative importance of a small number of standardised commodities, moreover, appears to be increasing.

III. RETAIL PROGRESS : (b) REGIONAL VARIATIONS

There are, in addition, marked regional variations in performance. First, we show in Table 6 the relative shares of Co-operative societies and multiple shop organisations in the trade of different regions in 1950. (These regions do not correspond with the Co-operative Union Sections.)

TABLE 6. Co-operative and Multiple Shop Shares of Trade by Regions, 1950.

Region	Co-operative Share of			Multiple Shop Share of Total Sales Per cent
	Food Sales Per cent	Clothing, Hardware, Furniture and Department Store Sales Per cent	Total Sales Per cent	
Northern	30.0	15.2	20.4	21.0
Scotland	32.4	12.6	20.1	18.2
North Midlands . . .	27.6	9.4	17.0	18.6
East & West Ridings . . .	23.2	7.2	14.3	19.8
North-Western	23.9	6.7	13.4	19.9
Wales	18.4	7.3	11.3	21.7
Midland	19.1	5.3	11.1	23.2
Eastern	17.6	6.4	10.9	23.4
South-Western	17.3	5.7	10.3	21.4
Southern	13.0	4.4	7.7	26.2
London & South East . . .	11.8	3.6	6.3	30.6

SOURCE: *Census of Distribution, 1950* (Volume II, Table 9).

This Table gives some idea of the regions and lines in which there exists the greatest scope for future development. But of course it gives a picture only of things as they were in that particular year, and not of the direction in which they were moving. It gives a still photograph, when what we need is a cinematic picture. We must therefore examine the regional *trends* in order to discover where progress is being made and where it is not.

In order to assess Co-operative progress in different regions between one year and another, we ideally need to know the changes in the total retail trade of each region between the two years.

Unfortunately no adequate information is available on regional movements in retail trade. We do, however, know the movements of population in each region ; and we can reasonably make the assumption that regional sales move roughly in line with national sales adjusted for changes in population. Strictly, of course, we should also adjust for changes in the relative income levels of different regions between the two years ; and on this no sufficient information is available. But in the post-war period of continued full employment, such changes have probably not been significant enough to invalidate the general picture.

We therefore show in Table 7, on the above assumption, the increase or decrease in the Co-operative share of total retail trade in each Co-operative Union Section between 1948 and 1955, as well as the Co-operative trade per head of population in the former year.

TABLE 7. Change in Share of Co-operative Retail Societies in Total Trade and in Food and Dry Goods, by Sections, 1948-1955.

Section	Change in Co-operative Share of Retail Trade in 1955 compared with 1948			Co-operative Sales per head of population in 1948		
	Total Trade Per cent	Food Per cent	Dry Goods Per cent	Dry Goods £	Total £	
Southern	+ 12.0	+ 13.8	+ 6.2	4.7	1.4	6.6
Midland	+ 11.4	+ 11.8	+ 3.5	8.5	2.0	11.4
Western	+ 6.9	+ 9.2	- 3.6	5.6	2.0	7.9
Northern	+ 3.0	+ 4.0	- 0.6	11.6	4.0	16.4
North-Eastern	+ 0.2	+ 0.0	- 6.2	8.7	2.3	11.9
South-Western	- 0.9	+ 1.7	- 13.6	5.7	1.6	8.0
Scotland	- 1.5	- 3.4	+ 0.3	12.4	4.0	17.2
North-Western	- 8.1	- 7.6	- 11.7	8.0	2.1	11.1

SOURCE: Based on information supplied by the Co-operative Union.

One comment only need be made. The poor showing of the Sections at the bottom of the first column of the Table is sometimes attributed to the higher degree of Co-operative "penetration" already achieved in these Sections, which allegedly makes further progress the more difficult. But the second half of the Table suggests that the initial degree of penetration cannot be the decisive influence on the rate of progress ; for the Midland Section, which comes out second as judged by rate of progress, started with a higher trade per head of population than two out of the three bottom Sections, and

the Northern Section, which also made progress, with a higher trade per head than three of the four lowest Sections. Generally, there is little correspondence between the two columns.

Evidently, therefore, the degree of penetration cannot be the decisive influence determining relative rates of progress, even though it may play some part along with other factors. As a matter of interest, we have looked at a number of other factors which might also have played a part, to see if any of them showed a better correspondence. In Table 8 we have arranged the Sections, as in Table 7, according to their rate of progress between 1948 and 1955 ; and we have then also numbered them according to the following criteria : (a) the initial degree of penetration, (1) representing the lowest degree, (2) the second lowest, and so on ; (b) the proportion of self-service to total grocery shops in the Section, (1) representing the highest proportion, (2) the second highest, and so on ; (c) the proportion of officials paid above the N.U.C.O. salary scales¹, (1) again representing the highest proportion ; (d) the percentage which reserve allocations bore to total sales in 1955, (1) representing the highest percentage² ; and (e) the proportion of societies in the Section with under 5,000 members in 1955, (1) representing in this case the lowest proportion.

TABLE 8. Sections Arranged according to Various Criteria.

Section	Rate of Progress 1948–1955	Low Initial Trade per head of Population	Self-Service	Above-Scale Salary Payments	Reserve Allocations	Size of Societies
Southern ..	(1)	(1)	(3)	(1)	(2)	(1)
Midland ..	(2)	(5)	(4)	(2)	(1)	(2)
Western ..	(3)	(2)	(2)	(8)	(6)	(4)
Northern ..	(4)	(7)	(8)	(7)	(4)	(3)
N.-Eastern ..	(5)	(6)	(6)	(4)	(5)	(8)
S.-Western ..	(6)	(3)	(1)	(5)	(8)	(7)
Scotland ..	(7)	(8)	(7)	(6)	(3)	(6)
N.-Western	(8)	(4)	(5)	(3)	(7)	(5)

It will be seen that there is at least as good a correspondence between rate of progress and several of these other factors, as

¹Taken from information supplied to us by the National Union of Co-operative Officials.

²Taken from information supplied to us by the Research and Statistical Department of the Co-operative Union.

between rate of progress and a low initial degree of penetration—indeed a rather better correspondence with the proportion of small societies (that is, the Sections making the most rapid progress have the lowest proportion of small societies). But of course no one influence is ever decisive ; the variations in the rate of progress are due to an intricate complex of factors. We thought it worth while to insert this Table only to draw attention to the point that initial trade per head of population is no more obviously related to trade progress than self-service development, salaries, reserve policies, size of societies—or many other factors which one might select.

However, we are concerned in this chapter not with explanations, but with the facts. And the facts which emerge, after this brief interlude, are first the stagnation or decline in the Co-operative share of trade in three of the past strongholds of Co-operation—the North-East, North-West, and Scotland : secondly, the encouraging progress achieved in recent years in the South, Midlands and West : but, thirdly, the great scope for further expansion in the still relatively under-developed Midland and Southern half of the country, and especially in the Greater London area.

IV. RETAIL PROGRESS : (c) INDIVIDUAL SOCIETIES

Finally, having analysed the position by trades and Sections, one would logically proceed to an analysis by individual societies. We ourselves have given some attention to the trade progress of all societies with (in 1955) an annual trade of over £2 millions. We have taken as the "norm" of trade progress the increase in national consumer expenditure between 1948 and 1955, adjusted for the estimated population change in each society's area ; and we have then listed societies according to the percentage by which their trade increase in these years exceeded or fell short of the "norm." Naturally the index is crude ; for there may be explanatory local factors operating in particular areas. But a number of clear general conclusions appear to emerge from it.

We have decided against publishing the index, since we prefer, as a matter of principle, not to refer to individual societies in our Report. We may, however, comment on the conclusions which emerge.

First, of the 97 societies included in this category, only 31 increased their share of retail trade between 1948 and 1955 (that is,

they exceeded their norm) ; a further 31 were below the norm by up to 10% ; while 35 were below it by more than 10%.

Secondly, as with the Sectional variations, there is no close correspondence between performance and initial degree of penetration ; that is, a rapid rate of progress cannot be solely explained by a low initial penetration, nor a decline in trade by a high one. No doubt it would be difficult for a society with a trade of £40 per head of population to increase its share of trade by a further 20%. But this is a most extreme case ; and generally we find societies with a high trade per head of population and societies with a low trade per head of population scattered fairly evenly throughout the index. To take one example, the same proportion (just over one-third) of societies which exceeded their norm, as of societies which failed to reach their norm by 10% or more, started with an initial trade per head of population of over £15.

Thirdly, as we should expect from Table 7, there are marked variations according to Sections. Over half the societies which increased their share of trade are in the Midland and Southern Sections, while half the societies which fall below the norm by over 10% are in the Scottish and North-Western Sections.

Fourthly, although the variations between individual societies are most marked in respect of dry goods, they are considerable even in respect of food, ranging from 21% above the norm to 33% below it. Moreover 21 of the 35 societies in the lowest group were as much below the norm in their food trade taken alone as in their total trade. We have here a further warning against the common assumption that all the Movement's weaknesses are on the dry goods side.

Our main purpose, however, in mentioning this index is to draw attention to the extreme importance of variations in the rate of progress between societies. We as a Commission are not concerned with individual societies as such ; and we base our recommendations on the broader national and regional trends described above. But the Movement itself should systematically examine the rates of progress of individual societies, and concentrate its attention on those societies which are failing to hold their share of trade. An index such as we have constructed shows at once which societies require a closer investigation of their affairs.

V. THE SOURCES OF RETAIL SUPPLIES

Retail societies obtain their supplies from five different sources : first, their own productions ; secondly, federal societies ; thirdly, the two Wholesale Societies ; fourthly, Co-operative productive societies ; fifthly, private manufacturers and wholesalers. We have made an analysis of the relative importance of these sources in 1954 ; this is presented in Table 9 below.

TABLE 9. Sources of Supply of Goods sold by Co-operative Retail Societies in 1954.

Commodity Group	Proportion of total supplies coming from					
	Societies' own Production Per cent	Federal Societies Per cent	Whole- ⁽¹⁾ sale Societies Per cent	Productive Societies Per cent	Other Sources Per cent	All Sources Per cent
Milk, meat, bread, fruit & vege's ..	14.0	9.5	41.5	0.0	25.0	100
Groceries, provis'n's & household stores ..	0.0	0.0	74.5	0.0	25.5	100
Non-food goods ..	1.0	0.0	49.0	4.0	46.0	100
Coal	0.0	0.0	68.0	0.0	32.0	100
Total goods.	4.5	3.0	61.0	1.0	30.5	100

NOTE.—(1) This includes goods invoiced through the Wholesale Societies ; such goods account for between one-quarter and one-third of the total. It does not, however, include raw materials supplied by the Wholesale Societies to retail and federal societies for use in their own productions (e.g., flour).

The sources of supply of the first and last of these commodity groups are inevitably influenced by technical and geographical factors (for example, the need to bake bread near the centre of consumption, the location and ownership of slaughterhouses or dairies, and so on) ; little can therefore be deduced about the general buying policy of retail societies. It is only in respect of the second and third groups that societies' choice as to sources of supply is of significance in the present context.

The Wholesale Societies clearly maintain their position as the major supplier of groceries and household stores, providing 75% of total retail society supplies in this field. From figures supplied to

us, it appears that this proportion is approximately the same as it was before the war.

In the case of non-food merchandise, however, the retail societies purchase only 49% of their supplies from the Wholesale Societies. The proportion of course varies between commodities, being highest in the case of drapery and women's wear, and lowest in the furniture, hardware and electrical group. Detailed figures showing the trend of these proportions for the whole country are not available. But from figures supplied to us by the C.W.S., it appears that the proportion of retail societies' non-food supplies in England and Wales obtained from the Wholesale Society fell from 60-61% in 1938 to 46-47% in 1954. The decline was common to all commodity groups, but most marked in the case of furniture, hardware and electrical goods, where the proportion fell by as much as one-third.

VI. CO-OPERATIVE PRODUCTIONS

Retail and federal societies play a considerable part in the production or processing of certain basic foodstuffs ; for example, 98% of retail purchases of bread and confectionery are from federal or retail bakeries. The Co-operative productive societies are responsible for some 1% of total retail societies' sales, the figure being substantially higher in those trades (notably footwear and clothing) in which they specialise.

But the main productive activities are of course those of the two Wholesale Societies. Full data on the distribution of the sales of S.C.W.S. factories are not available. But Table 10 opposite shows for three separate years the relative importance of C.W.S. productions in retail society sales in England and Wales.

It will be seen that C.W.S. productions have increased their share of total Co-operative food trade. But this increase has been mainly due to a large expansion of certain processing activities such as milk and meat. If these are excluded, we find (from more detailed figures supplied to us) that the share of C.W.S. productions in the groceries and tobacco trade has shown a slight decline, largely due to the failure of the soap and tobacco factories to maintain their share.

The slight increase in the share of the clothing and footwear group conceals two divergent trends—an increase in the case of

TABLE 10. C.W.S. Productions as a Proportion of Total Co-operative Retail Sales in England and Wales¹.

Commodity Group	1935 Per cent	1950 Per cent	1955 Per cent
Food, including tobacco	12.0	15.0	15.0
Clothing and footwear	18.0	17.0	19.0
Household textiles, furnishing, and hardware	24.0	21.0	18.0
Total for above groups	13.0	16.0	16.0

NOTE.—(1) C.W.S. productions are at wholesale prices, retail sales at retail prices. It is therefore the trend, and not the absolute figures, which is significant.

men's wear and women's wear, but a large decrease (by about one-third) in the case of footwear. As with the wholesaling activities, the largest and most sustained decline has occurred in the household textiles, furniture and hardware group.

Both Wholesale Societies have substantially expanded their productive capacity since before the war. But evidently they have not achieved a corresponding increase in their sales to retail societies ; for both show a considerable degree of factory under-utilisation. For example, both the English and Scottish factories manufacturing soap products, tobacco goods, furniture, metal products, woollen and worsted goods, and clothing and footwear were operating in 1956-7 at from 20% to 50% under capacity. The men's and women's clothing factories of the C.W.S., and the tailoring, hosiery and preserves factories of the S.C.W.S., were also working below capacity. There were, of course, many other production units (for example, in margarine, biscuits, flour milling, &c.) which were fully utilised. But clearly a considerable degree of excess capacity exists at present levels of retail society demand ; and production and sales policy needs to be carefully re-examined.

Chapter 2

THE ECONOMIC PRINCIPLES OF CO-OPERATION

Having outlined the problem, our next step was to establish the conditions within which it has to be solved. For the Co-operative Movement is based upon certain essential principles, which we assume will continue to be followed. We have in mind not the broader social and ethical ideals enshrined in the phrase "Co-operative Commonwealth," but the economic principles on which Co-operative societies in Britain are controlled and conduct their business. If, of course, we found as a result of our inquiry that a conflict existed between these principles and the requirements of efficient trading, we should have been obliged to point this out. But, in any event, the first step was clearly to set down explicitly what we assumed these principles to be.

I. CO-OPERATIVE DEMOCRACY

A Co-operative society, in its economic aspect, is a voluntary organisation set up by consumers or producers to serve their own needs. This does not mean that it owes obligations to no one else. Clearly, it accepts responsibilities towards its employees, the public at large, and the State. But its distinctive obligation is to its members as consumers or producers, and not, as with a capitalist enterprise, to the owners of capital. Upon this fundamental principle, most of the essential features of Co-operation rest.

The first of these features is that the members ultimately control their society on the basis of one member, one vote, and not according either to the capital which they hold in the society or the purchases which they make from it¹. It is this simple democratic rule, operating through members' meetings and the election of representative bodies, which is the first characteristic distinguishing a Co-operative trading organisation from an ordinary capitalist enterprise.

But the precise character of Co-operative democracy has inevitably altered over the last 100 years. Two changes in particular have occurred. There has been, first, a decline in the degree of member-participation, that is, in the proportion of members who play an

active part in the democratic process. This proportion could scarcely be expected to be as high in the large-multi-shop society of to-day, covering hundreds of square miles and with thousands of members, as it was in the days of the small village society of some tens of members, all taking an active interest in, and indeed often helping to manage, their own local enterprise. Less than 1% of members on the average now attend business meetings, and less than 2% vote in elections; and that these low figures are not unconnected with the trend towards larger societies may be inferred from the fact that the proportion declines as the size of society increases.

We cannot view this development with any satisfaction; and we should certainly wish to see a higher proportion of active members. The methods by which this might be brought about, however, lie mainly outside our terms of reference. Moreover, we do not take quite so dismal a view as some of the present situation.

An active interest in the affairs of a Co-operative society represents one way in which public-spirited citizens can devote their gifts and energies to the service of their fellows. It is important that this opportunity should exist. With the trend on all sides towards professionalism and bureaucracy, society needs more than ever the element of voluntary participation and acceptance of responsibility. It is a good thing for the men and women concerned that, feeling a social responsibility, they should have an outlet for exercising it constructively; and it is a good thing for society that this willing endeavour should be utilised, especially in a manner which gives a fruitful training both in economic realities and democratic methods.

But we deceive ourselves if we suppose that such persons will ever be more than a small minority of the community. Most people wish to attend to their families and cultivate their gardens. Only the few will ever wish to devote their evenings to voluntary public work. In the early days of the Co-operative Movement, when its total membership was numbered in thousands, almost the entire membership was drawn from amongst these few; and the proportion of active participation was therefore high. But to-day, when the Movement has 12 million members, the few have become a small minority of the total membership; and the figures of participation have fallen correspondingly. The change must be seen largely as an inevitable consequence of the Movement's growth from a small minority organisation to its present national size.

¹ In this chapter, to simplify the argument, we speak only of the primary or consumer societies.

Moreover ultimate democratic control is not necessarily lost because so few attend or vote. The inactive members still retain their full democratic power in reserve ; and they can exercise it at any time they choose. The fact that they permit themselves to be represented in meetings and elections by a small fraction of their number need not entail a loss of influence or control *provided that the fraction is truly representative of the whole*. This is admittedly not always the case ; for sometimes small pressure-groups, representing sectional or minority interests, may pack the meetings and dominate the elections. If this occurs, we cannot pretend that the requirements of democracy are properly fulfilled—we merely have government by an unrepresentative minority, made possible only by the apathy of the majority. Nevertheless, it lies fully within the powers of the majority to prevent this from occurring ; and normally of course they do so.

The second inevitable change in the character of Co-operative democracy stems both from the growth in the size of societies, and also from a change in the character of management. The function of management has become infinitely more technical and complex. A medium or large-sized Co-operative society to-day is a highly intricate business organism, depending for its success on the skilful use of a large number of specialised techniques. Under these circumstances it is no longer possible for a part-time body of lay Co-operators to undertake the detailed day-to-day management of a society ; this must be delegated to trained, full-time, professional officials.

This means that the nature of democratic control, and the level at which it is exercised, must change. Instead of attempting to take the day-to-day decisions, the elected Board to-day must concentrate on major policy. If it does so successfully, the reality of ultimate control is in no way weakened. Indeed, as compared with the practice of detailed interference in small decisions which so often passes for control to-day, it will actually be enhanced. For if the functions of active management and ultimate control are blurred, neither will be performed successfully. But if they are kept distinct, the requirements of Co-operative democracy can, in our view, be fully met despite the profound technical and economic changes which have occurred since the days of the pioneers¹.

Of course there will be particular examples of apparent conflict between efficiency and democracy. Wherever these occur in relation

to any of our recommendations, we discuss them at the appropriate place in our Report. But as we have studied each phase of the Co-operative trading problem, we have concluded that although the nature of democratic control must be adapted to altered circumstances, the claims of democracy and efficiency can perfectly well be reconciled.

Lastly, we draw attention at this point to a rather different aspect of Co-operative democracy (if we may use the phrase somewhat loosely) : namely, the principle of the autonomous local society. In an age when the general trend seems relentlessly towards centralisation and remoteness, we regard it as most desirable to preserve local organisations with local roots and local loyalties. The Movement is fulfilling a real social purpose whenever a Co-operative society is looked upon as an integral part of local community life—not as a distant, remote organisation controlled by strangers from London or Manchester, but as “our” society, with a local name, local loyalties, and local men and women on its Board. In one or two of the largest metropolitan societies, this is perhaps already ceasing to be the case ; but it remains true of a high proportion even of large and medium societies. We, for our part, regard the principle of local autonomy as being an essential aspect of the wider principle of Co-operative democracy¹.

II. THE DIVIDEND

The second basic Co-operative principle is the distribution of the surplus (after any collective appropriations) as a dividend on purchases. It is not true to say, as is sometimes argued, that the Co-operative Movement aims at the elimination of profit. If profit is defined as a surplus over cost, the Movement certainly seeks to make a profit. In contrast to private enterprise, however, the surplus belongs to the consumer ; and it accrues to him in proportion to his purchases instead of to the property-owner in proportion to his share-holding.

The principle and the utility of dividend on purchases are sometimes questioned by contemporary critics. We have no hesitation in upholding both. First, the payment of dividend on purchases has some egalitarian effect on the distribution of income inasmuch as £50 millions a year, which might otherwise accrue to a much smaller class of property-owners, in fact accrues to a much larger number of

¹But autonomy is not the same thing as monopoly. It is not to be inferred from this argument that the local society should have a complete right of local veto over the entry into its area of other Co-operative organisations. (v. Chapter 7.)

¹The detailed implementation of these principles is discussed in Chapter 5.

ordinary consumers. As we pointed out in Chapter 1, over £1,000 millions has been distributed in dividend during the last 50 years. But the full significance of this method of distributing the surplus can only be judged by taking into account also the fixed return on capital ; and the matter is therefore further discussed in the next section.

Secondly, the dividend typically accrues, in the case of families, to the wife and the mother, so increasing the " housekeeping " income relative to the total resources of the family. This has a beneficial effect on family and social welfare, since the wife's housekeeping income is spent relatively more on necessities than on luxuries.

Thirdly, dividend provides an easy, convenient and semi-automatic method of either personal or family saving. The extent to which it is used for this purpose is of course defined by the extent to which it is not at once withdrawn, but is allowed to accumulate. In the case of large families, it is no doubt usually withdrawn and spent at once. But it is known that an appreciable fraction of dividend payments remains in members' accounts. It may be withdrawn after a matter of months, and used towards a holiday, or Christmas, or other annual occasions of this character. Or it may be left to accumulate for years as an insurance against old age, adversity, or any unforeseeable need for a large lump-sum expenditure. In either case dividend makes it easier to build up a reserve against the future ; and this is surely beneficial.

Lastly, dividend is a powerful inducement to consumers to trade with the Co-operative Movement, and thus helps to expand the Co-operative share of total economic activity. But here we meet the question of the right *level* of dividend, which in turn raises further questions relating to price policy and reserve allocations. As these are particularly intricate, and also involve detailed matters of policy as well as of principle, we reserve them for separate discussion in the next chapter.

III. FIXED RETURN ON CAPITAL

The third economic principle of Co-operation is the payment of a fixed return on capital. The distributable surplus belongs and accrues not to the members as share-holders in proportion to their capital, but to the members as consumers in proportion to their purchases. The capital-owners are in the position either of debenture-holders or preference-shareholders, receiving a fixed rate of interest, and with

no claim to the residual profit ; it is the member-consumers who " own " the undertaking and have the sole claim to the residual surplus.

The economic significance of this fact is primarily for the distribution of income ; that is, the distribution which results from Co-operative trading is quite different from that which results from private trading. But the difference is not mainly due to the *positive* fact that the surplus is paid out as dividend on purchases. If £50 millions annually is divided amongst 12 million members—an average of a little over £4 a year per member—the total real income of the members will not be greatly affected. In a large number of individual cases, of course, where purchases are much above the average, the financial gain will be significant, and the dividend will make an important contribution to the family income ; and in any case there are other advantages, discussed in the last section, attaching to the principle of Co-operative dividend. But if we look at the matter simply in terms of equality and the distribution of the national income, the actual dividend payment is not the major influence. For no trading organisation, selling at competitive prices and also allocating sums to reserve, could possibly earn and distribute so large a differential profit as significantly to increase the real incomes of 12 million people.

The crux is rather the *negative* fact that the surplus is not distributed as a gradually rising income to a group of private shareholders. If the Co-operative sector of trade were in the hands of capitalist enterprise, first, the equity of the enterprise would be held, not by 12 million ordinary consumers, but by perhaps 12 thousand relatively wealthy property-owners ; the average dividend income per person would therefore be quantitatively more significant, and it would accrue, by and large, to the richer section of the community. Secondly, a rising annual total of dividend payments, since it accrued to the holders of marketable shares, would reflect itself in corresponding (and currently tax-free) capital gains ; and at present levels of taxation this would have an effect on the distribution of wealth far exceeding, over a period of years, that of the dividend payment itself.

It is not possible to measure the difference quantitatively, since we cannot know what the equity-value of the Co-operative sector of trade would be if it were in the hands of private enterprise. It is well known that Co-operative balance-sheet figures greatly underestimate the market value of the physical assets held by the Movement ; and of course they take no account of goodwill. We may suppose that a private enterprise concern would have made large-scale bonus issues

of shares and substantially increased dividend-distributions in order to bring both the nominal and market value of the issued capital more into line with the capital value of the assets. Co-operative balance-sheet figures are therefore no guide to the amounts which might be involved.

However, we can perhaps obtain a crude idea of the orders of magnitude by considering the income which the equity-capital might have earned under private enterprise. The total dividend and share-interest (but excluding loan-interest) paid out by retail societies is well over £50 millions annually. If this sum were paid out as a dividend on ordinary shares, and if the shares yielded 4%-5%, their market value would then be £1,000-£1,250 millions. The difference between this figure and the actual Co-operative share-capital of some £250 millions is some guide to the capital gains which would already have accrued to private shareholders. Moreover, it has been estimated¹ that the value of ordinary shares will rise (compound) by 3-5% annually over a long-term period. In that event, private capital gains from the Co-operative sector of retail trade would continue to accrue at the rate of between £30 millions and £62 millions annually; and this of course takes account only of the retail Movement. Since this is a compound rate, we should be dealing over a 10- or 20-year period with sums which could be considered very large indeed².

Thus the fact that the Co-operative Movement does not distribute its growing surplus as an equity-income to ordinary shareholders, but pays instead a fixed return on share-capital which is not transferable, creates the possibility of achieving economic growth without a continuous rise in the value of privately-owned property. A Co-operative society should properly be called not a non-profit-making organisation, but a non-capital-gains-creating organisation. And since privately-owned property is still most unequally distributed, the consequence is a more equal division of wealth than would otherwise be the case.

The principle of a fixed return on share-capital does not, however, mean that the return must be fixed for all time, nor even that it should always be as low as it has traditionally been in the past. The Movement must have the capital that it needs for expansion; and if this involves,

¹Royal Commission on the Taxation of Profits and Income: Final Report (Cmd. 9105), Minority Report, p. 380.

²But these figures should be compared, to keep the matter in perspective, with a likely total annual increase in the value of private property (on the same assumptions) of £600-£1,000 millions.

at certain periods, a rise in the rate of interest, this in no way conflicts with the preceding arguments. The higher interest payment accrues only to ordinary Co-operative members; and, since a limit exists to the number of shares which any individual can hold, it is most unlikely to accrue mainly to wealthy people. And, much more important, it does not give rise to capital gains, since the shares remain unchanged in value. It is thus not the exact *level* of the rate of interest at any given moment which is significant; on the contrary, this can legitimately alter as the need for capital varies. What is significant is that the rate does not fluctuate automatically with the trading surplus. In particular, it does not rise steadily over the years as the trading surplus increases, for the shareholders have no claim to this surplus; and a rise does not in any case cause the value of the shares to rise, since this is fixed in money terms.

IV. CONSUMER-PROTECTION

Lastly, a Co-operative society exists to protect and promote the interests of its members; and so far as the greater part of the British Movement is concerned, these members are consumers. This aim is of course reflected in the three principles already enunciated: ultimate control by the consumer-members, the payment of the surplus as a dividend on purchases, and the limitation of the reward to capital. But these principles, although they might guarantee that consumer-interests were protected, would not necessarily ensure that they were actively advanced. To them must therefore be added a fourth principle: namely, the duty of a Co-operative society so to conduct its trading operations that consumers are not merely negatively protected against exploitation, but derive the greatest possible positive benefit from the existence of a Co-operative Movement.

This duty has two aspects. First, since the members form a Co-operative society to help themselves, and in particular to derive benefits which they cannot obtain from private enterprise, their elected representatives have an explicit duty to conduct the affairs of the society in such a way as to satisfy this object: that is, at the highest possible level of efficiency. It is not enough, to-day, merely to sell unadulterated goods and pay out the surplus as dividend. The Co-operative member now has higher standards, and is more exacting in what she demands from her society¹.

¹We use the feminine gender, here and elsewhere, since it is of course women who do the bulk of the shopping.

To satisfy her demands, a retail society to-day should accept the following aims. First, to sell at prices which are never consistently under-cut by any major competitor : secondly, never to sell shoddy or untested merchandise, but only goods for which it is willing to accept complete responsibility : thirdly, to maintain the highest standard of shop-location, layout, appearance and service. The slogan should be that "nothing is too good for the Co-operator" ; and the ambition should be that the word "Co-operative" comes to be a synonym for both leadership and dependability in respect of price, quality and service.

It is evident from a tour of Co-operative shops that many societies are still far from having attained this high ambition. In many areas, the word "Co-operative" is, we fear, associated with a drab, colourless, old-fashioned mediocrity ; and too many societies are prepared to jog along, complacently and unimaginatively, quite content so long as dividend is being paid. It must be said dogmatically that this is not good enough for the consumer in 1958 ; indeed, it betrays a somewhat patronising and insulting attitude to the wants and expectations of the ordinary Co-operative member.

What is perhaps needed above all, in some parts of the country, is a change of attitude : a raising of Co-operative sights to a more elevated and ambitious target, commensurate with the vastly-improved standards of the working class as compared with the pioneering days. But practical aid will also be required. If the local society is to maintain its position in competition with multiple chains, nationally organised and with huge resources, it must have access to expert central guidance and advice. We propose in later chapters that the national federations should provide technical and financial assistance on a scale much larger than has yet been envisaged in the Movement¹. It will then become, in our view, a positive obligation on elected Boards to make the fullest use of these services. A society which drifts along in a sloppy or old-fashioned manner, when help and advice are available, is simply betraying its duty to its members.

But the Movement also has a wider duty to the consuming public as a whole. Being subject to no internal conflict between shareholders' interests and consumers' interests, but viewing matters solely from the standpoint of the latter, it is especially well-placed to represent the consumer in all matters of public policy. In its evidence

to Government bodies, for example, on prices, margins, hygiene, food standards, and the like, it does and should take account solely of the interests of the consumer ; and it should come to be known in the public mind as the one trading organisation which can be relied upon to do so.

This is even more important in respect of monopoly and restrictive practices. We discuss in a later chapter the anti-monopoly role of the production side of the Movement. But it is more urgent that the retail Movement should stand out, to the limits of its strength, against such restrictive practices as resale price maintenance, exclusive dealing, boycotts, and the rest. Perhaps the British Movement has not been as active in this role as some of its continental counterparts. But consumer-protection against monopoly, and indeed excessive profits or exploitation from whatever cause, should always be part of the rationale of consumers' Co-operation.

It was, then, within the framework of these four principles, re-interpreted in the light of modern conditions but still basic to the Co-operative purpose, that we conducted our inquiry and decided on our recommendations. Indeed our recommendations are not merely consistent with these principles, but, in our view, essential to their wider diffusion. For the extent to which Co-operative principles are applied must ultimately depend on the Co-operative share of total economic activity ; and our recommendations have the one object of increasing this share to the greatest possible extent.

¹v. especially Chapter 8.

Chapter 3

DIVIDEND, PRICES, AND RETURN ON SALES

We turn now to a detailed discussion of the principle of dividend, having postponed this for separate treatment because it raised intricate issues of policy as well as of principle. The discussion in this chapter is intended less to lead to definite and specific recommendations, than to clarify the aims of Co-operative price and dividend policy as a background to the remainder of our Report.

I. A FLAT-RATE VERSUS DIFFERENTIAL DIVIDEND

We wish at the outset to draw attention to a rather neglected consideration. Acceptance of the principle of dividend does not necessarily involve acceptance of the principle of a *flat-rate* dividend. We are aware that the Movement has traditionally favoured a uniform dividend (within any single society) on all purchases. But we think that the matter is worthy of fresh examination.

It is not obviously logical to pay a uniform dividend when the net return on sales differs so markedly between commodities. If the return is 6d. per £ on one commodity, 1s. 6d. per £ on another, and the dividend is 1s., then those members who buy relatively more of the second commodity are subsidising those who buy relatively more of the first. Of course some element of subsidy must occur if the dividend is not to vary with each individual commodity; but it need not be on the scale which a single flat rate of dividend renders inevitable.

A further consequence of a flat rate is that if a line is not "earning" its dividend, there is a disinclination to push it even though it shows *some* profit and hence is adding to the total surplus available for distribution. Thus the delivery of bread, to take a possible example, although it still yielded a positive return on sales¹ and indeed might seem a natural Co-operative service, might not be undertaken because the net return, although positive, was yet lower than the current rate of dividend. Of course a society might still undertake it for other reasons, as, for example, to acquire good-will, or to provide a complete Co-operative service, or to sustain a Federal bakery or the Wholesales'

flour mills. Nevertheless the financial disincentive exists, and may often be decisive. Where it is, the society would be failing to expand its sales and to provide a necessary service, even though it could actually increase its total surplus by so doing.

This dilemma would be at least partially resolved if the flat-rate dividend—and the argument applies as much to the wholesale as to the retail dividend—were to be replaced by (say) a two-tiered or three-tiered dividend; that is, if commodities were grouped into two or three broad categories according to net return on sales, and a different rate of dividend paid on each category. Such a system would be more logical than the present one, and might remove a barrier to the expansion of useful but low-margin lines. We hesitate definitely to recommend it; for not only might it raise acute administrative problems, but, inasmuch as it would cause some members to be worse off and others better off than under the present system, it might raise social issues outside our terms of reference. But the Movement should at least be clear in its own mind as to exactly why it does not adopt what would appear to be a more logical system.

II. DIVIDEND AND PRICES

We now consider what level of dividend (given the continuance of a flat rate) should be aimed at by retail societies. This must naturally depend on what views are taken of a number of other questions, such as the correct price policy, reserve policy, the relation between dividend and trade, and so on. These will be considered in turn.

Traditional Co-operative precept has been to sell at market prices, and "let dividend take care of itself" as a residual. This was not in the past always wholly practical advice, partly because in certain areas the Co-operative society, being the dominant trader, itself controlled the market and set the market price, and partly because, retailing being an imperfect market, there was in many cases no single market price, but a considerable range of prices. In practice, the results of a number of test-purchase surveys which we have examined suggest that where a range of prices exists, Co-operative prices tend to be equal to the average ruling in the district, but slightly above those of the multiples and slightly below those of independent retailers.

Logically, the correct price policy—and throughout this section we use the word "price" to cover the combination of price/quality/service, for, if we are considering the relation of price and dividend,

¹That is, the sale of delivered bread, although of course it offered a lower return than the sale of bread in shops, was still profitable.

a higher dividend might be paid equally out of higher prices or lower quality or a reduction of services—would obviously be that which brings the greatest possible gain to Co-operative members (given the proviso of open membership). Unfortunately this is not an unambiguous objective, since the gain from Co-operative trading might come in one of two ways—by lower prices or by the fact of dividend ; and these might be alternatives. In the case of a private enterprise concern, no such ambiguity exists. The “members,” that is, the holders of the equity-capital, will want that price policy which gives them the largest (present and anticipated) dividend-income ; and they will not care whether the resultant level of prices is high or low. The consumers of the product, on the other hand, will want the lowest level of prices, and will not care whether the resultant dividend is high or low.

But in a Co-operative society the members are both consumers, who want lower prices, and members, who want a higher dividend ; and we do not clearly know how they weigh their claims in these respective roles. Do they see the gains of Co-operative trading in terms primarily of lower prices or of dividend ? Generally, what combination of price and dividend would they prefer ? Presumably there are critical levels of both high prices and low dividend at which trade would fall off rapidly ; but within these levels the preferences of Co-operators have never been ascertained.

However, it may well be that in practice the area of free choice between price and dividend is now rather limited. Retail prices tend to be more uniform and competitive than in the past, and the range of price variation open to the individual retailer is in consequence reduced. The practice of resale price maintenance virtually deprives him of control over prices. Even where prices are not dictated by the manufacturer, the standardisation of goods consequent upon branding and advertising makes price-comparisons easier, price-consciousness greater, and uniform prices therefore more likely. In addition, the growth of vigorous chains of multiple shops, relying on a low margin and rapid turnover, has tended to force down average margins and prices ; the days are gone when Co-operative societies, competing only against inefficient and high-margin local traders, could pay dividends of 4s. while still claiming to sell at market prices. Lastly, there are now fewer areas where the Co-operative society dominates the local market and itself sets the market price.

But all this, it may be said, ignores the factor of dividend. Even though prices are more uniform and competitive, a Co-operative society might still charge above the competitive level, openly and deliberately, in order to pay a higher dividend ; and Co-operative members might be willing to pay the higher prices, even on branded goods and knowing that competitors were charging less, because they positively preferred the dividend to competitive prices.

We believe, for the reasons just discussed, that they are less prepared to do so than in the past. Because prices have become more uniform, because price-consciousness is greater, and because retail competition is fiercer, there is now a stronger sense of what constitutes both the ruling price and a fair or reasonable price ; and there is a correspondingly greater reluctance to pay more than this, even to obtain the benefits of dividend. Most consumers to-day are probably not willing to choose dividend if it is offset by a higher price ; they would normally prefer a competitive price and lower dividend. To this extent the importance of price has increased relative to that of dividend.

But this does not of course mean that dividend has ceased altogether to be important. Naturally its attraction varies between different goods (being greater, for example, on standardised or “big-ticket” goods than on fashion lines, where it probably plays little part) and also between different members and even parts of the country. But we have no doubt that it remains a strong positive inducement to trade with the Co-operative. Consumers still value it, provided it is a discount on a competitive price ; and they would probably not be willing to forego it in the interests of prices lower than this. This is partly also the result of the reason just mentioned : because consumers have a strong sense of what is a reasonable and conventional market price, they often mistrust a lower price as a sign of lower quality—which is why price-cutting is sometimes ineffective in expanding sales. But mainly it is due to the positive attractions of dividend discussed in the previous chapter. These benefits are valued more than an equivalent reduction in price below the ruling level—but almost certainly less than an equivalent increase in price above that level. This may or may not be a wholly rational attitude ; but in our judgment—and these must inevitably be matters of individual judgment—it is the typical attitude of the Co-operative member to-day.

We conclude that dividend is still a vital factor, *given that prices are fully competitive*. It gives the Co-operatives, not an absolute advantage irrespective of price, but a *conditional* advantage—conditional upon prices being competitive. If they are, then dividend exactly measures the differential financial benefit from trading with a Co-operative society ; and this differential should give societies a significant advantage over their competitors.

It therefore appears that the traditional maxim—"sell at market prices and treat dividend as a residual"—is still in principle correct. But it must be interpreted correctly. Because prices tend to be more uniform in any given area than they were 100 years ago, "market price" has become a distinctly more rigid concept ; and to the extent that there is still some choice and flexibility, the Movement must base its policy on the fact that the threat to its trade now comes not from the easy-going, high-margin local trader, but from formidably efficient, low-margin, large-scale retailers, and notably the multiple shop organisations. Societies would therefore be wise to interpret "market prices" as being the prices of the most successful multiples in each line and each area.

Generally, it should be a principle that the Movement is never undersold, not indeed by an individual small trader or on an individual "loss-leader," but consistently by any of its national competitors. The prices charged must be competitive with those of the most dangerous rivals in each field. Depending on the level of costs, these prices will (subject to a complication discussed below) determine the trading surplus. But of course they will still not finally determine the rate of dividend ; for there is a rival claimant to the surplus, namely, allocations to reserve.

III. DIVIDEND AND RESERVE POLICY

Reserve policy, because of its implications for the Movement's capital position, is of crucial importance to Co-operative trade. It is fortunately increasingly recognised in the Movement that the volume of this trade does not depend solely on price and dividend, but also on the shopping facilities available. Indeed the latter are without doubt growing in relative importance as an influence on trade ; for, just as a combination of more competition and greater discrimination has made the consumer more conscious of price and quality, so she has become more fastidious and sophisticated about the shopping facilities

which she demands. She expects the right number and location of shops, a clean, contemporary lay-out and appearance, perhaps self-service facilities, and (for some goods) regular delivery. In any event, whatever her own preference as between these benefits and dividend, the next 10 years are not likely to witness any large increase in the average rate of dividend ; and a significant expansion of Co-operative trade will therefore depend, as we make clear in the next chapter, on a large improvement in both the number and quality of Co-operative outlets.

This emphasis is supported by two specific pieces of evidence. First, a recent sample survey, to which our attention was drawn, of the reasons why new members join a Co-operative society appears to indicate that the initial appeal of the society to potential members lies in its trading facilities, notably the convenience of its shops, the extent of self-service facilities, and the availability of delivery. Only after having started to purchase from the society for these reasons do the new customers then join in order to obtain the dividend ; and no doubt the dividend at that stage becomes a powerful factor in persuading them to extend their range of purchases.

Secondly, the large number of Co-operative members who patronise only one or two departments (especially, bread and milk) and purchase on an insignificant scale in other departments suggests that a significant proportion of Co-operators support their society either because of its delivery services, or in order to obtain dividend on a staple and standardised commodity. But the influence of dividend is not sufficient to induce them to patronise other less convenient or standardised departments—presumably, because these either do not exist near at hand, or else are of poor quality. The difference between the Co-operative proportion of the bread and milk trades, and its proportion of total retail trade or even total food trade, is some measure of the inadequacy of dividend alone as an inducement.

Pre-eminent amongst the other essential inducements, then, is the provision of more and better shops. If the Co-operative Movement sets itself to achieve a really significant expansion of trade, this provision must, as we show in Chapter 9, be on a scale which will strain the Movement's capital resources to the utmost. It will require, in particular, a sustained and active policy of "ploughing-back" by retail societies. The sums thus placed to reserve will not, of course, be lost to the Co-operative member ; on the contrary, she will reap the benefit in better shops and a fuller Co-operative service.

We therefore have a direct conflict over the division of the surplus : dividend versus reserves¹. On what basis should it be resolved ? We do not believe it possible to lay down a simple rule-of-thumb, since the situation and needs of individual societies differ so greatly. We can only lay down general principles ; and their exact interpretation must depend on local circumstances.

So far as reserve policy is concerned, we need only say at this stage, anticipating the detailed argument of Chapter 9, that the retail Movement as a whole should, in our view, make substantially higher reserve allocations than it is making to-day, and even than it has been urged to make in official Co-operative Union policy statements ; for, unless it does, the capital requirements of a bold programme of Co-operative development will not be met. Looking at the matter from the point of view of the capital position, therefore, more should be allocated to reserve, and less to dividend, than has traditionally been the case in the British Movement.

The strength of the counter-claim of dividend, on the other hand, must be judged according to the view which is taken of the relation between dividend and trade in each locality : that is, of the extent to which the exact level of dividend influences the volume of Co-operative trade.

This is a question, unfortunately, on which no serious evidence exists ; and people tend to answer it by hunch or intuition. There is an urgent need here for a systematic programme of consumer surveys. All we have to go on at the moment are crude correlations. It is possible to find, for example, some correlation between high dividend and high Co-operative trade per head of population, notably in the older Co-operative areas ; but the latter might as easily be due, not to the high dividend, but to the large number of grocery shops characteristic of some of these heavily-penetrated areas, or to a lesser degree of competition from the multiples. One can find, again, some correlation between a low rate of dividend and a heavy rate of ploughing-back, and a rapid rate of post-war expansion ; but again the evidence does not justify our definitely linking these as cause and effect.

But we would hazard the following judgments. First, to be effective as an inducement, dividend must be above a certain minimum

¹The alternatives are not, it is true, completely clear-cut when we consider their secondary effects. We discuss this complication in Chapter 9, section VI ; but it does not affect the general argument.

level, so that the rate of dividend sounds significant and the totals paid out are actually significant. It is hard to believe that a dividend of under 6d. attracts much trade, save perhaps on a few exceptional "big-ticket" items.

Secondly, above this minimum, the "effective" level will depend partly on what level the local members have been accustomed to, and on local preferences as between dividend and lower prices.

But one must not exaggerate this point ; for, thirdly, above the minimum level it is probably the fact rather than the exact rate of dividend which acts as an inducement. Thus one may doubt if trade is significantly affected if dividend is raised or lowered by 1d. or even 3d. Of course, if the change were really large, the effect might be considerable ; if, for example, a society paying 1s. 6d. were to amalgamate with a society paying 6d., and immediately to raise the dividend in the latter's area to 1s. 6d., we can well imagine that Co-operative trade would increase sharply. Moreover, even a small change may have a psychological effect out of proportion to the sums involved if it brings the dividend into the range of a different money-unit—say, from 11d. to 1s. But the normal small changes of 1d. or 2d. up or down have, in our judgment, no appreciable effect on trade ; and we think that societies are ill-advised to bother with them in view of the urgent claims of the reserves.

We therefore suggest that societies, when faced with a choice between a small increase in dividend and an additional allocation to the reserves, should generally choose the latter unless (a) the dividend is below the "critical" minimum level¹, or (b) the increase is a "psychological" one, as for example from 11d. to 1s., or (c) the increase is not merely an isolated rise in that particular year, but is part of a planned upward movement which can be expected, over a reasonable period of time, to lead to a dividend which is higher not by 1d. or 2d., but by a significant amount of at least (say) 6d.

Otherwise societies should seek to stabilise dividend at a level (if necessary, below the current level) which, in the light of local history and conditions, is high enough to act as an effective inducement, but not so high that it cannot be maintained for a period of years ahead ; and they should allocate the remaining surplus, and any increases in the surplus, to reserve.

¹Even then there may be occasions when it is better to hold the dividend down in order to build up reserves.

Not even this level should be treated as sacrosanct if it conflicts with the requirements of a prudent reserve policy ; especially, we would endorse the often-reiterated advice of the Co-operative Union that reserves should under no circumstances be drawn on, nor depreciation neglected, in order to maintain a particular rate of dividend.

IV. RETURN ON SALES AND RETURN ON CAPITAL

There is one last complication to be considered ; and here we embark on a subject which is somewhat technical, and cannot easily be expressed in simple language. So far we have not made an explicit distinction between the *rate* of dividend and the total *amount* paid out in dividend. In fact these are not the same thing ; and different policies will be pursued according to which of them it is desired to maximise. In the one case, the society will seek the largest possible net return per cent on *sales*, in the other the largest possible net return per cent on *capital*. Which of these should be the proper aim ?

It is clear that decisions—for example, about what lines to expand or to enter—will be different according to which rate of return is treated as more important ; for the ratio of capital to sales varies between commodities. It varies not only in respect of fixed capital—that is, more fixed capital per unit of sales may be required for selling furniture than for selling cigarettes—but most obviously (because some lines are fast-moving and others slow-moving) in respect of working capital tied up in stocks. Since the ratio of sales to capital varies, it follows that the ratio of *return* on sales to *return* on capital will also vary. Thus one commodity, which offers a low profit on sales, may yet have so rapid a rate of stock-turn that it yields a better return on capital than another commodity, which has a higher profit on sales but a slower rate of stock-turn. Generally, we may expect goods with a slow stock-turn to yield a high return on sales relative to the return on capital, and goods with a rapid stock-turn the opposite.

Table 11 illustrates this point by an example based on Census data.

The stock-turn for greengroceries and fruit is, roughly, once a week. Thus, for every £100 of working capital used in retailing greengroceries and fruit, sales of £5,000 a year are made. But the stock-turn of boots and shoes is much less rapid—approximately 4 times per

TABLE 11

	Sales	Working Capital (Stock)	Stock-turn	Gross Margin	Expenses (2/3 of G.M.)	Net Profit	Profit Per cent Sales	Profit Per cent Capital
Greengroceries & Fruiterers ..	£5,000	£100	50	% 19 950	£633	£317	6.3	317
Boots & Shoes	£410	£100	4.1	26 106	£71	£35	8.5	35

SOURCE : *Census of Distribution, 1950.*

year, instead of 50. So, for every £100 of working capital used in stocks of boots and shoes, sales of only £410 a year are made. Expenses in the case of greengroceries and fruit are about 13% (or £633) and in the case of boots and shoes 16% (or £71). Net profit on the sale of greengroceries and fruit amounts to £317, a much larger total than the £35 profit on boots and shoes. This difference is reflected in the much higher profit per cent on capital (317% for greengroceries and fruit and 35% for boots and shoes). The per cent of profit on sales, however, is considerably higher on boots and shoes, namely 8.5%, as compared with 6.3% on greengroceries and fruit.

To which rate of return should the Co-operative Movement give precedence ? The answer depends on whether members are more interested in the total amount or the exact rate of dividend. If they are solely concerned with the total amount, the society will naturally aim at the largest possible surplus ; and, with a given quantity of capital, it will then push the fast-moving rather than the slow-moving lines, since the former offer the better return on capital, and it will push sales so long as the additional sales yield some minimum return on capital. Return on capital would be the sole criterion.

But a dilemma arises when, if a line is pushed further, the rate of return on *sales* (and no doubt also on capital) begins to fall off because of rising costs, or, generally, if some lines offer a very low return on sales. The return on sales may still be positive ; and the total surplus would therefore be increased if sales were pushed still further. But the fact that the return on sales, though positive, is falling (or exceptionally small) means that the maintenance of the existing rate of dividend on sales is threatened; that is, the return on the additional sales would not be sufficient to cover the existing dividend. Thus if the members are primarily interested in the *rate* of dividend, the society will determine its policy by reference to return on sales. It will prefer the slower-moving high-margin lines, even though they yield a worse return on capital ; and it will refrain from pushing lines

to the point where return on sales begins seriously to decline—even though the total surplus is still increasing.

Logically, there can be no doubt which course a Co-operative society ought to pursue. Given equal price and quality, the benefit to Co-operative members from trading with their society rather than with private enterprise must be measured by the total *amount* of dividend which they receive, irrespective of the exact *rate* of dividend; in which case societies, seeking the largest possible surplus out of which to pay dividend, should, with any given quantity of capital, attend solely to the rate of return on capital and push the faster-moving lines.

Of course not every individual member would be benefited by such a policy; for, if the rate of dividend falls as a result of pushing sales to the utmost, then, even though the total amount of dividend paid out is larger, those members whose purchases have not increased will be worse off. Similarly, an influx of new members who bought only those lines (say, bread and milk) with a below-average rate of return on sales might bring down the overall rate of return and hence the rate of dividend; and again, even though total dividend payments were larger, some existing members would be worse off¹. But even in these cases the membership as a whole would of course be better off, because the total amount of dividend paid out would be higher; and it is to the membership as a whole that the society owes its loyalty.

Nevertheless, there is an overwhelming practical objection to relying solely on the criterion of return on capital and ignoring return on sales². Although the total *amount* of dividend paid out is the only rational measure (given equal prices) of the economic benefit of Co-operative trading, the *rate* of dividend (subject to the reservations discussed above) is often a vital psychological inducement to members to trade with the Co-operative. An expansion in the volume of trade might increase the total amount of dividend paid out; but, if it caused a serious fall in the rate of dividend, it might prove short-lived, and be reversed as soon as the psychological effect of the lower rate had made itself felt in the locality.

¹Of course this difficulty would be partially avoided if there were a two- or three-tiered dividend (v.s.).

²There may be a further objection, namely, that the Movement may sometimes wish to enter lines where the rate of profit on sales seems unduly high, simply on grounds of consumer-protection and regardless of the return on capital to be expected.

Societies can therefore never afford to neglect return on sales. Having decided on the "effective" rate of dividend described above, they must aim at a surplus *per cent on sales* which will cover this rate. Only subject to this can they concentrate on seeking the largest possible return on capital and hence the largest possible trading surplus. Thus a Co-operative society, because of its concern with the rate of dividend, cannot push expansion as far as private enterprise is sometimes supposed to do—namely, to the point where little or no further profit will come from further expansion, and the total surplus is the highest which can be obtained with the quantity of capital available.

It appears, then, that no single rule is possible for a Co-operative enterprise; for the logical claim of total amount of dividend and the psychological claim of rate of dividend are often in conflict. One can only say that societies should aim first at that return on total sales which will cover whatever is considered the "effective" *rate* of dividend: but that subject only to this they should, when deciding what lines to enter or expand, use the criterion of return on capital, in order to obtain the largest possible surplus and total *amount* of dividend.

Part II

THE RETAIL MOVEMENT

Chapter 4

THE NATURE OF THE PROBLEM

We divide the remainder of the Report as follows. Part II., which consists of this and the ensuing four chapters, deals with the problems of the retail Movement. Part III. analyses the Movement's capital position. Part IV. discusses the production and wholesaling activities. Part V. gives a summary of our recommendations.

We begin in this chapter by analysing the causes of the failure, which was described in Chapter I., significantly to increase the Co-operative share of retail trade over the last two decades. This failure can, in our view, be attributed mainly to four weaknesses.

I. THE NUMBER OF CO-OPERATIVE OUTLETS

There are still, taking the country as a whole, too few Co-operative outlets. But this is a generalisation, which does not apply to all areas or all types of outlet. We must distinguish between food and dry goods on the one hand, and different regions on the other.

Thus in food it can be argued that some areas in the North actually have too many Co-operative grocery shops. This may be due to a proliferation of societies either overlapping or at least in close proximity to each other, or to a movement of population which has left shops stranded and under-utilised in a now declining area. In such cases there is a strong argument for closing down the redundant shops. A society's duty is to deploy its total resources in the best interests of the membership as a whole; and it cannot do this successfully if forced to carry surplus capital assets.

In the South and West, on the other hand, there are still many areas which have too few Co-operative grocery outlets. The Northern, Scottish, North-Eastern, and North-Western Sections all have more than five fixed food shops per 10,000 of population; but the Southern Section has only two, the South-Western and Western Sections three, and the Midland Section four. The same picture emerges in respect of travelling sales vehicles. Even allowing for a measure of redundancy in some of the Northern regions, it is clear from these figures, as

indeed it is from common observation, that the Southern and Western regions are "under-shopped" in groceries; and this is especially important because there is a clear correspondence between number of shops and sales per head of population.

Moreover, some particular types of food or "provisions" outlet are gravely deficient in number in all parts of the country—greengrocery branches, fish shops, wine and spirit licences, automatic vending machines, and so on. To take the first of these as an example, Co-operative progress in the fruit and greengrocery trades is still most disappointing; and this is one of the reasons for the Movement's failure significantly to expand its share of total food trade since 1935. Only one in 20 of the buying public patronises a Co-operative greengrocer, compared with one in five who buys Co-operative groceries and one in three who buys Co-operative milk. There is little hope of appreciably raising this proportion without a large increase in the number of greengrocery outlets (whether separate shops or, more probably, departments within self-service shops and supermarkets).

When considering shopping facilities in the food trades, we must take account also of the question of delivery. Delivery services are necessarily costly; yet they are highly regarded by many consumers, especially in view of the trend since the nineteen-thirties towards shorter shopping hours. In the particular case of bread, moreover, where there has recently been a tendency on the part of societies to abandon delivery-services, the result of doing so may be to jeopardise the sales and profitability both of Federal bakeries and the Wholesales' flourmills, and to leave the field open to the growing competition from large-scale private firms.

This is, we know, a controversial subject, on which divergent views are held both inside and outside the Movement. We wish only to draw attention to the matter, and to advise that the relevant central bodies should undertake an expert study both of the dimensions of the problem and of possible solutions, such as the organisation of Federal or regional deliveries, charging for delivery, the opening of shops at places of work, and so on.

But of course the most serious deficiency is the inadequate number of dry goods outlets; and this deficiency is common to all Sections. It is true that there has been some increase in the number of Co-operative department stores since the end of the war. But, much

more important, the Movement is lagging far behind in the provision of specialist dry goods shops. For example, the number of Co-operative specialist clothing shops remained virtually unaltered between 1946 and 1955 at some 2,700 ; while the number of footwear shops actually declined from 1,068 to 934¹. Nor has any progress been made since 1946 in the field of variety bazaars.

The relatively less favourable picture in the dry goods than in the food trades may be confirmed by comparing the number of Co-operative outlets with the total number of outlets in the country. In 1950 there were in Great Britain some 424,000 establishments selling food and dry goods²; of this number 168,000 or some 40% were classified as dry goods outlets. The Co-operative Movement in 1955 had some 29,700 comparable establishments ; but of these only 5,400, or 18%, were classified as dry goods outlets. Thus if the Co-operative Movement were to have the same proportion of dry goods to total outlets as obtains nationally—if, in other words, it were to offer its members facilities in dry goods on the same relative scale as it offers them in food—it would need roughly to triple its dry goods outlets to a figure of 16/17,000. (This would give a total number of Co-operative shops of some 40,000, of which 40% would then be in dry goods.) Co-operative members, however loyal, cannot buy Co-operative dry goods, however excellent, unless they have the shops in which to buy them. To take one particular example from many, in the Greater London area, with a population of 8½ millions and some two million Co-operative members, there were 31 Co-operative men's wear shops, or one shop to every 60,000 Co-operators ; in the same area there were 688 branches of multiple men's wear organisations.

II. THE DISTRIBUTION OF CO-OPERATIVE SHOPS

The second retail weakness is that the distribution and siting of Co-operative shops fails increasingly to correspond with the geographical pattern of retail trade.

This is often the case even *within* a single town or a given society's area. It is frequently remarked that in many large towns the Co-operative department store, instead of being strategically located in the middle of the main shopping centre where its main competitors

congregate, stands either a small but critical distance apart, or even in another part of the town altogether. Where the latter is the case, the reason is often historical ; the site may well have seemed an excellent one in the days when working-class shoppers, disinclined to penetrate into the more central and fashionable shopping areas, were content with a single Co-operative emporium near to where they lived.

For food stores, such locations may sometimes still be the right ones. But for most dry goods they are not. In footwear, clothing and household durables, the main shopping centres—whether the existing fashionable ones in the middle of the town or the embryo centres of the future in the new suburban areas—are attracting a higher and higher proportion of the trade. It is here, and here alone, that the progressive multiples and chain-stores place their shops. If Co-operative societies fail to follow suit, they will find their dry goods trade steadily slipping away. Many societies are perhaps frightened either by the high rents of central sites or by the presence there of so many formidable rivals. But the high rents are an inevitable corollary of so rich a concentration of trade ; while the presence of the Movement's main competitors, so far from being a deterrent, should on the contrary be a guarantee that the location is correct. The right place for a Co-operative dry goods outlet is in the middle of the competition.

In order to obtain some factual evidence on location, we commissioned a special analysis of the siting of Co-operative dry goods outlets in a random sample of 28 towns in England. This was done by preparing maps showing the location of the Co-operative shops or stores, the main multiple shops, and the central shopping areas. The maps revealed that in only three cases was the Co-operative shop or store located in a "good" shopping site, that is, in the main shopping centre and near the multiples ; in nine cases the location was "medium" ; while in 16 cases the location could only be described as "poor," being well away from the main shopping street and the sites of the multiple shop competitors. In these latter towns, the Co-operative member who wished to patronise the Co-operative store would be compelled to leave the main shopping district altogether in order to do so. These findings sufficiently confirmed the views which we had already tentatively formed.

Just as important as the siting of shops *within* a single town is the distribution of Co-operative shops as *between* towns of different size.

¹*Co-operative Shops, 1955.* (Co-operative Union.)

²*Census of Distribution, 1950.* These figures exclude tobacconists, news-agents, confectioners, chemists, and coal-merchants.

TABLE 12. Co-operative and Multiple Shop Share of Trade by Town-Size, 1950.

Town-Size Group	Co-operative Share of—			Multiple Shop Share of Total Sales Per cent
	Food Sales Per cent	Clothing, Hardware, Furniture and Department Store Sales Per cent	Total Sales Per cent	
Greater London	12.0	3.4	6.1	32.1
Population over 250,000	22.7	5.0	11.1	24.1
100,000–250,000	20.8	6.3	11.6	24.5
50,000–100,000	22.0	7.3	12.7	24.6
25,000–50,000	24.2	10.6	15.5	21.9
10,000–25,000	23.8	11.0	15.8	19.9
2,500–10,000	21.5	10.0	14.2	16.3
Remainder of Great Britain	21.7	17.0	17.7	9.9

SOURCE: *Census of Distribution* 1950, vol. II.

It will be observed that in the food trades, with the exception of Greater London, there is no obvious relative weakness in any particular size of town. But in dry goods a conspicuous picture emerges. As the size of town increases, the share of the Co-operative trade declines and that of the multiples rises; as the size of town diminishes, the Co-operative share increases and that of the multiples declines. Naturally it is agreeable to do so well in the smaller towns. Unfortunately it is not in these towns that the bulk of the trade now lies. Indeed one of the reasons for the Co-operative success there is precisely that the multiples, perceiving the trend of trade, scarcely bother to compete. In the large towns, on the other hand, and especially in those with over 50,000 inhabitants where almost three-quarters of the dry goods trade is done and where the multiples compete ferociously, the evidence of Co-operative failure seems incontrovertible.

The major reason for this failure is undoubtedly that the migration of dry goods trade into the large towns has not been reflected in a re-distribution of Co-operative dry goods *outlets*¹. The Movement has only half as many specialist clothing and furniture shops per head of population in towns of over 25,000 inhabitants as it has in towns of under 25,000. As a result, 52% of Co-operative clothing shops

Notably in dry goods, this distribution corresponds badly with the geographical pattern of trade. It is well known that the last few decades have witnessed, not only a movement of population from the countryside into the towns, but (much more significant) a major migration of dry goods trade. While consumers may still want their foodshops to be located within easy reach of where they live, they are increasingly prepared, and indeed determined, to travel considerable distances for their larger dry goods purchases. They want the choice, the variety, and perhaps also the animation and bustle which only the urban shopping area, with its numerous and competing modern stores, can adequately provide. The result is a sustained flow of dry goods trade out of the countryside and the smaller towns into the larger towns, most of which in consequence now have a dry goods trade well above the national average¹.

This movement of national dry goods sales has not been reflected in a corresponding movement of Co-operative dry goods sales; as a result, the geographical pattern of Co-operative dry goods trade is markedly out of line with the national pattern. The Movement is relatively weakest in the large towns where the highest proportion of the trade is conducted, and relatively strongest in the countryside and small towns where less and less trade is done. For example, there are in Britain 120 towns with a population of over 50,000. These towns account for 53% of the total population, 62% of all retail trade, 72% of all dry goods trade—but only 54% of Co-operative dry goods trade. The disparity is even more marked if we take the 54 towns with a population of over 100,000. These account for 44% of the total population, 52% of all retail trade, 60% of all dry goods trade—but only 40% of Co-operative dry goods trade.

It is worth considering this lack of correspondence in rather more detail; for unless it is corrected, the Movement has little hope of making significant progress in the dry goods field. We therefore show in the following table the relative importance of the Co-operative Movement and the multiple shop organisations in the trade of towns of different sizes.

¹To take some well-known examples, the central area of London accounts for only 1% of the country's population, but 10% of the national dry goods trade. In Scotland, Glasgow and Edinburgh account for 30.5% of the population, but over 45% of the dry goods trade. Twenty-nine towns which contain 22½% of the population of Great Britain secure over 38% of the total dry goods trade. Some £30 millions of trade comes into Manchester from outside, £10 millions into Bradford and Leeds, £15 millions into Newcastle, £9 millions into Nottingham, and so on.

¹Another reason is the existence of boundary agreements which prevent the Co-operative societies in the large towns from drawing on the Co-operative population of their entire catchment-areas.

are located in areas responsible for only 18% of the national trade in clothing done by specialists (i.e. other than by department stores) ; in furniture, a similar proportion of Co-operative outlets are located in areas responsible for only 14% of the national trade.

A similar criticism can be made of the distribution of Co-operative department stores. In 1950, using the Census definition of a store, the retail societies owned, out of a total of 160 Co-operative department stores, 65 stores in towns with a population of more than 50,000 and a further 31 in greater London ; this meant that some 60% of the total number were in the large towns. But private department stores were concentrated to the extent of some 85% in the large towns. Furthermore, as the Census lists 119 towns with more than 50,000 inhabitants (leaving aside London), there would appear to be at least 54 large towns which have no fully-fledged Co-operative department store.

We may conclude by giving one or two more specific examples. In 1950, in the footwear trade, the Co-operative Movement had 22 specialist establishments serving the Greater London population of $8\frac{1}{2}$ millions, but 185 establishments serving towns of between 2,500 and 25,000 inhabitants with a total population of seven millions. It had 31 men's wear shops in Greater London, but 134 such shops in the towns of between 2,500 and 25,000 inhabitants. Similar examples could be given from other dry goods trades to show how ill-distributed are the Co-operative dry goods branches, and how under-shopped are certain important selling areas. This unbalance must be redressed ; and we may add that the matter is one of great urgency, for within a few years, if swift action is not taken, the sites as well as the market will have been lost to the Movement's multiple competitors.

III. THE QUALITY OF SHOPS

A successful retail organisation needs not only enough shops, and those skilfully located ; the shops themselves must be of a high quality. Rising standards have made the consumer, working-class as well as middle-class, a great deal more exacting than her predecessor of even two decades ago. She will no longer endure blowzy buildings and dowdy display. She demands clean, modern premises, an attractive window-display, bright lighting, an effective and convenient lay-out, and generally a smart and contemporary air. The more progressive multiples give the first priority to such matters ; and they set a high standard for their competitors.

Some Co-operative societies have attained, if indeed they have not exceeded, these high standards. The evidence can be seen in the growing number of modern supermarkets ; the new food-halls on many post-war housing estates ; the new or rebuilt department stores in the centre of the New Towns and blitzed cities ; the smaller department stores which some societies are building in the growing suburban shopping centres ; and the many imaginative renovations of older premises. All these deserve high praise, and achieve a standard exceeded by no other retail organisation.

But we have found the picture to be a terribly patchy one, and the fine new or renovated shops to be only a small proportion of the whole. If we ask what is the "image" of a Co-operative shop in the public mind, the answer will not be a supermarket or new department store. It is more likely to be a ponderous, unrestored, and unimaginative grocery-cum-butchery-cum-drapery cluster, built in the early 1900s, still operating counter-service, the window-display old-fashioned, the exterior clumsy and badly in need of paint, the interior frowsy and unattractive. This is no doubt unfair. Yet there are still far too many such Co-operative premises, especially in parts of Scotland and of the North of England ; and they give the whole Movement a name for backwardness and drabness.

There is, of course, an explanation. The Co-operative Movement is now paying the penalty for having been the first of the large-scale retailers. Having covered the country with shops before ever the multiples came on the scene, it now has a larger legacy of obsolete premises than its younger rivals. This is the price of having started first.

But this is perhaps not the whole explanation. We have formed the impression that other, more human, factors are also at work—notably, conservatism and complacency. Financial conservatism, important as it is, can be carried too far. It may lead to an unhealthy preoccupation with the balance-sheet at the expense of the premises. We have been surprised at the number of societies whose premises are (to say the least) of most indifferent quality and aspect, which yet boast an impregnable capital position and a ratio of investments to members' capital far above the 50% laid down by the 1951 Policy Committee. In such cases we should prefer to see less capital locked up in investments, and more used in trade and for renovating shops. The Co-operative Movement is supposed to be a dynamic trading organisation, not a giant investment trust.

Moreover, excessive financial conservatism may prove a suicidal policy in the face of the younger generation of consumers, who, perhaps more discriminating and fastidious than their parents, demand a much higher standard of shop and service. If they do not find it in the Co-operative Movement, neither loyalty nor dividend will in the end prevent them from deserting to competitors.

Indeed this may already be occurring. We have found a number of indications to suggest that the appeal of the Co-operative Movement to the younger generation is considerably less than it is to their elders. First, a consumer-survey of new membership in a large North-Western society suggests that Co-operative membership is often taken out surprisingly late in life. It has always been known that it was not, for obvious family reasons, generally taken out until after marriage. What is disturbing is to find that more than half the new members have been married for over five years before they join ; and that the average interval between marrying and joining is $9\frac{1}{2}$ years. Bearing in mind that the early years of married life are a heavy period of household spending, this relative failure to appeal to the newly-married must mean a considerable loss of potential trade.

Secondly, the Oxford Savings Surveys suggest that only 2% of Co-operative members are under the age of 25¹. Even allowing for the fact that young people often continue to purchase on their parents' number up to the time when they get married, this figure still seems abnormally low. Many people now marry before they are 25, and many unmarried people of under 25 have left their parents' households ; and both these groups might be expected to take out separate membership.

Thirdly, a recent inquiry into the pattern of sales of women's and girls' clothing in urban areas shows that 74% of the clothing sold by Co-operative shops is for women aged over 30, and only 11% for women aged between 15 and 29². (The remainder is accounted for by clothing for girls aged five to 14). In the case of the multiple shop firms, 52% of the clothing sold is for the over-30s, and 35% for the 15-29 age group ; for department stores the respective figures are 64% and 27%. The same survey estimates that the expenditure per head on clothing by women aged 15-29 is 66% higher than the

¹v. Appendix 2.

²These data are taken from A. M. Alfred and G. Prys Williams, *Demand Factors in Textiles* (Paper presented at Conference of the British Man-Made Fibres Federation, July, 1957.).

expenditure per head by women over 30. The Co-operative bias towards the older woman shopper, and the relative failure to attract the heavy-spending teenage and younger woman, stand out all too clearly.

Naturally we cannot definitely assert that pre-war figures would not have told a similar story. But it seems at least plausible to attribute these findings to a rise in the level of sophistication of the younger generation, which has outstripped the rise in the standards of Co-operative shopping facilities (and often merchandise). At any rate, it is certain that the Movement will not make up its present serious leeway amongst the young, unless the appearance and lay-out of its shops consistently reach the highest contemporary standards of comfort and elegance.

As we pointed out above, no society need look outside the Movement to discover what is required and what can be done. The shops of the best societies compare with any retail premises in the country. All that is required is that the majority should come up to the standard of the best. No doubt an improvement is gradually occurring ; each week the Co-operative journals report an encouraging tale of renovations and conversions. But the failure of the Movement to increase its share of trade, as well as the evidence of our own eyes, suggest that progress is still too slow.

We would refer briefly at this point to an allied question, namely, the size of shops. In food especially, the trend to-day is unmistakably towards larger shops, with supermarkets as the inevitable culmination. Here the Co-operative Movement makes a favourable showing, its grocery shops being on the average substantially larger than those of either the multiple organisations or independent retailers. In some sections of the dry goods trade, on the other hand, where the trend is also (though less strongly) towards larger shops, the picture is less satisfactory. While in men's wear and footwear the average Co-operative specialist shop is approximately the same size as the average multiple shop branch, in women's clothing, furniture and hardware it is appreciably smaller (as measured both by turnover and by numbers employed)—and the contrast is greatest in the large towns. This, in our view, is a definite weakness.

Co-operative department stores are also smaller than private department stores, their average turnover being only 40% of the average turnover of the private stores. But although this may have

been a weakness in the past, we should not be inclined to criticise it as such to-day, since there may well be a trend towards smaller stores located in suburban shopping centres. The Movement, with its tradition of smaller stores, may therefore be well-placed to take advantage of the trend.

IV. THE GOODS SOLD IN CO-OPERATIVE SHOPS

The final question is whether the goods sold in Co-operative shops come up to the standard which the critical consumer of to-day demands. This standard will be judged by price, quality, range of choice, and availability of credit.

We have not found the *prices* of comparable goods to be either significantly higher or lower in Co-operative than in the average of private shops. Nevertheless, as we pointed out in Chapter 3, while they appear to be slightly lower than the prices of independent retailers, they appear sometimes to be slightly higher than the prices charged by multiple shop organisations; moreover one can find individual societies, especially in the North, where a high dividend is certainly bolstered by above-average prices. Generally the picture in respect of prices may perhaps be described as fair. But we would reiterate our advice that societies should never allow themselves to be consistently undersold by any major competitor; and they should carry out regular and systematic test-purchases to ensure that they are not.

One detailed aspect of price policy may perhaps be mentioned here. We have heard, both from the Wholesale Societies and the C.P.F., animadversions on retail societies for allegedly ignoring the manufacturers' "recommended" prices on Co-operative productions, with the result that the same commodity is sold at different prices in different parts of the country. This, it is said, handicaps the manufacturer's advertising policy, which properly requires that a fixed price should be mentioned in the advertisement.

We are not wholly convinced by this. It is certainly not an invariable rule for manufacturers to mention price in their advertisements. Nor, in any event, do price variations between societies appear to be on the scale sometimes suggested; the most recent test-purchase survey which we have seen (on C.W.S. goods) showed that "correct" prices were charged in 88% of cases, below the correct price in 3%, and above it in 9%.

We must make it clear, in any event, that we are opposed to price-dictation by manufacturers as a matter of principle. Distribution costs vary between different parts of the country and different types of outlet; and retail prices should vary with them. We have some sympathy with the complaint that retail societies behave as they choose in respect of Co-operative goods, yet docilely submit to resale price maintenance by private manufacturers; and we would not deny the right of producers to fix maximum prices. But we are certainly not in favour of uniform prices; and societies must, in our view, retain the right to pursue a "flexible margin" policy if they so wish.

The *quality* of the goods sold in Co-operative shops appears to be somewhat variable. We must distinguish here between different categories of goods. In most food and in non-fashion dry goods lines, sales consist mostly either of privately-manufactured branded goods or of Co-operative productions. The quality of the former is naturally the same in Co-operative as it is in private shops. The Co-operative productions in these lines also appear to us, on the average, to be fully the equal of competitors' goods. There are naturally complaints on individual articles, but these are offset in the total picture by the exceptionally high quality of other articles. In these fields, failure to sell cannot be generally ascribed to any deficiency in quality.

In fashion and semi-fashion lines, on the other hand, and generally in lines where individual taste is decisive, the picture is less satisfactory. In men's wear, women's wear and children's clothes, few Co-operative stores are able to offer the quality of goods, at the price, which is offered by some private chains of specialist shops and variety bazaars. There is a tendency, perhaps, to a certain dowdiness. The goods are no doubt solid and durable, but they are not always stylish or "smart" enough to appeal to the younger generation. There is here a failure in merchandising policy, which explains some of the findings mentioned in the previous section.

So far as the *range of choice* offered in Co-operative shops is concerned, there is no doubt in our mind that many societies, not yet awake to the higher and more varied expectations (in food as well as in dry goods) of to-day's shoppers, are still stocking too narrow and old-fashioned a range of goods. The Movement must beware of aiming too low in this respect. It is no longer appealing to a working class which is barely above the subsistence line, but to consumers

whose tastes are changing and rising rapidly. Increasingly, they demand such "non-traditional" merchandise as a larger variety of cheeses, continental viands, wines and spirits, gramophone records, contemporary furniture, high-fashion textiles, and the like: and the Movement must, as some societies are already doing, adjust its range of merchandise to meet these new demands.

Lastly, the *availability of credit*. We are concerned here not with credit on ordinary grocery sales nor with mutuality club credit, but with Hire Purchase credit on furniture and household durables. The comparative figures suggest that while the Co-operative Movement extends roughly the same proportion of Hire Purchase credit to sales as the national average, it lags well behind its most formidable competitors in credit trading. The Movement has only some 7% of the national trade in furniture and household durables; and its share has failed in recent years to grow significantly. We think that a somewhat bolder attitude will be required towards Hire Purchase credit, which, moreover, seems certain to become still more important in the future¹.

V. CONCLUSION

We have suggested that the four main weaknesses of the retail side of the Movement are an inadequate total number of outlets, especially in dry goods; an unsatisfactory distribution of these outlets, again especially in dry goods; too variable a standard of shop; and certain faults in regard to the range and quality of goods sold.

But, lest these comments be misunderstood, we repeat two of our underlying assumptions. First, these are "weaknesses" as judged by an elevated standard. If the Movement had been content merely

¹Data on the extent of credit trading in Britain are scanty, but they are sufficient to indicate its considerable importance in the household goods trade. In 1956 Hire Purchase sales of household goods (furniture, furnishings, hardware, and electrical goods) were roughly 28% of the total retail sales of household goods shops (*Board of Trade Journal*, February 16th, 1957). This figure includes Co-operative sales. The equivalent figure for Co-operative sales alone was 27%.

If we compare the Co-operative performance not with the national total, but with that of its larger competitors, the contrast becomes more serious. For example, whereas the outstanding Hire Purchase debt of the largest multiple shop competitor in March, 1956, was £41.9 millions, the Hire Purchase and Club debt of the whole Co-operative Movement at the end of the 1955-6 financial year was £15.7 millions. This contrast becomes more important when we consider that Co-operators belong typically to the groups which are shown in the Oxford Savings Survey as making the greatest use of Hire Purchase facilities.

to maintain its present share of trade, they need not have been taken too tragically; and the rate at which they are currently being corrected might even prove adequate. But we judge the aim to be a more ambitious one: namely, that the Movement should greatly *expand* its share of trade. In relation to this objective, the weaknesses must be taken most seriously; and they will need to be corrected at a much faster pace than is now occurring.

Secondly, the picture presented in this chapter is a national, overall picture. It obscures the fact that some individual societies have already, by their own exertions, largely cured these faults. If these societies represented the "norm" of the Movement, there would be little need for any recommendations from us.

But unfortunately they do not. The "typical" society does not come up to these high standards; and it is to the typical, and not the exceptional, society that our recommendations are primarily addressed.

Having described the weaknesses, we next seek to diagnose their cause and propose a cure. Part of the cause, especially with regard to the quality of goods, lies in the unsatisfactory relations between the retail and wholesale wings of the Movement. This question is discussed in Part IV. So far as the retail side of the Movement is concerned, we believe the cause to lie in one or other, or a combination, of the following factors: deficiencies in management, an irrational structure of retail societies, an absence of sufficient central technical assistance, and the lack of national retail bodies in the dry goods field. These are discussed in turn in the following chapters.

Chapter 5 CO-OPERATIVE MANAGEMENT

The standard of management in Co-operative retail societies varies from the excellent to the deplorable. This is a matter of common admission within the Movement itself. But if proof is required, it can be found in the extreme variations in trade progress, even after allowing for population changes, between societies of the same size and in similar areas. The fact of such large variations, when external conditions are broadly similar, concentrates attention on the internal management of individual societies. We are firmly of the view that the quality of this management in the future will largely determine whether the Movement expands or stagnates.

I. THE ALTERED ROLE OF THE BOARD

Co-operative management differs from capitalist management in that it operates within a framework of democracy. The problem, a perennial one, is how to combine democratic control with managerial efficiency.

We have already suggested in Chapter 2 that this problem is not insoluble, provided that the role of democracy is properly interpreted. But some critics blame all the ills of the Co-operative Movement on the low calibre of the elected Boards of Management. We do not agree. On the contrary, we have been impressed by the quality of many of those who offer themselves for this often arduous voluntary work. Naturally, when the proportion of members voting is as low as it is, incompetents or people with an axe to grind will occasionally be elected, either by accident or by pressure-groups. But such cases are not typical. We are therefore not in sympathy with proposals to set an age-limit, or to lay down minimum qualifications, for Board members—though we favour a continuous attention to the training and refresher courses already offered by the Education Executive.

The crux of the problem, in our view, is not the calibre, but the *role* of the democratically-elected Board, and the relationship between it and the chief officials. We have found three separate versions of this role to be current in the Movement at the present time.

First, some Boards act simply as a consumers' vigilance committee. They neither try actively to manage, nor do they discuss or determine the long-term policy of the society. They confine themselves to articulating members' complaints, asking, for example, why this brand

of biscuit was out of stock at that grocery branch last week, and to "political" questions such as who is to go on this delegation or that. They act as the members' watchdog on points of detail; but otherwise they merely rubber-stamp the decisions of their officials.

We do not consider this to be a proper or sufficient role for the Board. It is unsatisfactory in terms both of efficiency, in that it wastes the time of busy officials on trivial details which should never reach the Boardroom: and of democracy, in that the members' elected representatives neither take responsibility for, nor exercise proper control over, major policy decisions.

At the other extreme, many Boards appear to conceive their role in terms of active day-to-day management. Even in some large societies, they appoint all officials down to and including branch managers. They determine all questions of remuneration and conditions of employment. They decide where shops are to be sited. They interfere in matters of lay-out and design. They decide on merchandising policy and even examine samples. Generally, they attempt, in innumerable committee and sub-committee meetings, to share the function of detailed management with their officials.

We regard this as quite wrong. Boards which attempt actively to manage in this way misunderstand, in our view, the nature of modern management, and ignore the revolutionary changes in techniques which have occurred in recent years. When the system of Co-operative committee management was first conceived, the question of management "techniques" scarcely arose. The societies were small—often, indeed, they had only one shop; the Co-operative member's needs were few; and grocery retailing was a simple business well within the competence of intelligent laymen.

But matters are very different to-day. Societies have grown prodigiously in size. The largest societies now control as many shops as the average private multiple organisation; even the typical society has a turnover and stock assortment incomparably greater than 50 years ago; while the tiny one-shop society accounts for only an infinitesimal fraction of the Movement's trade. This trend towards the large-scale multi-shop society raises an entirely new and vastly more complicated managerial problem.

At the same time, and parallel with the growth in size, retailing itself has become more technical and scientific. For many decades, while formidable changes were taking place in industry, the techniques

of retailing remained largely unaffected. To-day, by contrast, we are witnessing a process of rapid change and innovation throughout the distributive trades. The changes are partly physical, and caused by the continuing revolution in shopping habits and consumer tastes ; partly organisational, such as the growth not only of the familiar retail multiples, but now of voluntary wholesale chains and collective buying groups ; and partly technical, ranging all the way from electronic computing to mechanical handling.

These changes all have one characteristic in common : they call for increasingly expert and scientific management. No layman to-day, however able and assiduous, can have a proper grasp of the more and more complex techniques of (to take some examples at random) unit stock-control, scientific stock-assortment, budgetary control and forecasting, modern accounting systems, and so on indefinitely. Of course this trend is not confined to retailing. It reflects a wider change, common to all economic activity, and caused by the constantly increasing scale, complexity and technical intricacy of modern business. As a result, the gifted amateur is everywhere more and more at a discount. The layman gives way to the specialist ; and management, in retailing as elsewhere, becomes an expert and scientific profession.

Under these circumstances, active management by Co-operative lay committees becomes, in our view, a dangerous anachronism. Management must now be delegated to the specialist officials who are appointed by the Board to carry it out, and who alone are technically equipped to do so.

There is a further argument against committee interference in detailed management : namely, that it is most unfair on the chief officials. Instead of being able to concentrate on managing the society to the best of their ability, they must spend a large part of their working and (what should be) their leisure hours attending committee and sub-committee meetings, preparing elaborate minutes and reports, interviewing individual committee members, and the like. The inevitable result is, if not overstrain and breakdown, at the very least a complete inability, from lack of time, to sit back and plan ahead. Immersed in detailed committee work, they cannot adequately fulfil the most essential functions of executive management : overall co-ordination and the preparation of forward plans for the Board.

Nor is their morale improved by the constant scrutiny of and interference with their daily actions. Good officials need to be trusted

to get on with their job, to be granted (within reason) full responsibility, and to be given their head. If they are constantly being watched over their shoulder and deprived of due authority, they will become frustrated and demoralised ; and when the society has to appoint new officials, it will find that the best potential candidates in the Movement are unwilling to apply.

None of this means that we wish to foster a "managerial revolution" within the Co-operative Movement, or to weaken the distinctive Co-operative element of "lay democracy." On the contrary, this is a case where the interests of democracy and those of efficiency coincide. Both must suffer if part-time committee members interfere in management—efficiency for the obvious reasons just discussed, democracy because the Board will then have insufficient time to debate and scrutinise their society's overall policy and future prospects, which will thus become the responsibility of officials where they should be that of the elected Board.

Indeed we have been surprised to discover how "managerial," in terms of power and decision-making, the present system of Co-operative democracy often is. Many Boards spend so much time on points of detail that they can seldom sit back, reflect, and argue seriously on matters of long-term policy. We have examined the committee minutes of a number of societies where the Board acts in this way, and we have been disturbed to discover not only how much time is spent on detail, but how little is spent on that ultimate direction and control of the society which the members have entrusted to their elected representatives. In the extreme cases, we have here a real dereliction of duty to the members.

The position is often worst in societies where a system of permanent sub-committees operates. In such cases, not only is there a negative lack of central direction, but there is sometimes a positive conflict of interests as well. Committee members are bent on forwarding their own particular interests, whether grocery or dry goods ; disputes and overlapping occur between sub-committees ; and the result is a serious lack of co-ordination of overall policy.

There is a further reason why committee interference paradoxically produces an undesirably "managerial" result. This is that the officials are often immune from effective criticism and rebuke ; for, if they are guilty of failure or incompetence, they can always blame the interference of the Board. Under a proper system of democratic

control they would have no such alibi ; the Board would judge them strictly on their performance, and would thus be in a stronger position than it often is to-day to assess, promote, rebuke or dismiss.

So far from proposing a more authoritarian or "managerial" structure, therefore, we should like to see the elected Boards undertaking a more effective ultimate supervision than they sometimes do to-day. This is the major responsibility which they owe to their members ; but if they are to fulfil it satisfactorily, they must leave the detailed management to those whom they pay and select to perform it.

We therefore support the third theory of Co-operative management, which already operates in many societies, under which the Board does not interfere in management, but concentrates on deciding and sanctioning major policy. One can never, of course, define precisely what constitutes major policy as opposed to the managerial function ; the line of division must always be somewhat blurred. But broadly we regard the following subjects as being the proper responsibility of the Board.

First, the selection of the chief officials, and the determination of their salaries and conditions of work. This must always represent both the final and decisive power, and the most exacting duty, of the elected Board. In the existence of this power lies the ultimate guarantee of democratic control ; on how judiciously it is exercised, the efficiency of the society will depend. We do not, however, believe that the Board should appoint officials below the top level—certainly not, as happens even in some large societies to-day, the branch managers ; it is a function of executive management, once appointed, to select the subordinate officials.

Secondly, the Board should lay down the general policy on prices, dividend and reserve allocations. Thirdly, it should decide the rate of interest to be paid on members' capital. Fourthly, it must sanction all capital expenditure above a certain level, and generally the plan of capital development for the coming year or years. Fifthly, it must approve the capital budget showing in detail how this plan is to be financed. Sixthly, it must receive from the chief official, and carefully scrutinise, regular trade and statistical reports designed to give the maximum information and the most scientific check on efficiency ; it is in carrying out this regular scrutiny that the Board fulfils its main responsibility to the members, and acts as their trustee for the

affairs of the society. Lastly, it must provide a continuous liaison with the membership, besides of course being (in many societies) responsible for those political and educational matters which lie outside our terms of reference.

Once these duties are accepted as being the proper responsibility of the Board, societies must then delineate as clearly as possible what is the proper function of management, so that the division is fully understood by both Board and officials. We have been surprised to discover in how few societies is there any clear definition of the responsibilities respectively of the Board and the chief officials ; in the rare cases where the duties of the latter are laid down in the rules, these are often completely out of date. The consequent ambiguity inhibits rapid and decisive action by the officials, who are uncertain as to what does and what does not lie within their competence.

We therefore recommend that societies should make a clear division of responsibility between Board and officials. Major policy decisions will be reserved for the Board, but executive control and the responsibility for carrying them out must be explicitly vested in the chief official, who must then be given the full necessary authority. If the job is not well done, the reports and statistics submitted to the Board will demonstrate the fact ; and the Board will then reprove or dismiss as it thinks fit. But the nebulous division of authority which is still too common in the Movement must be replaced by an unambiguous allocation of duties.

To sum up, it will be seen that the role which we allot to the Board, so far from diminishing the reality of democratic control, in fact enhances it. It offers to the elected Board tools of control much more precise and powerful than the occasional and haphazard interference in detailed management which often passes for control to-day. Indeed it is significant that these tools—the overall control of finance, the examination of an annual capital budget, the use of scientifically selected figures as checks on efficiency, and the selection of the top managers—are increasingly relied on even by the *full-time* Boards of progressive public and private concerns. In particular, the final power is more and more seen as lying in the prerogative of appointing and dismissing the chief officials. But, once appointed, these officials must be allowed and encouraged, subject to the general direction of the Board and periodic checks on their efficiency, to get on with the job of managing.

II. CONSEQUENTIAL CHANGES

The first corollary of accepting this view of Co-operative management should logically be a change in nomenclature. Many societies' boards are still called "Committee of Management." This was an accurate name in the days of the village society and pre-professional management. But to-day it gives a misleading notion of the proper function of the Board, which, as we have made clear, is not to manage, but to supervise major policy. In order at once to define the function and elevate the status of the elected body, we recommend that the proposal already made by the Co-operative Union in its model rules, of a change in name from Management Committee to Board of Directors, should be generally adopted.

So far as the composition of Boards is concerned, there is only one change which we would recommend¹. We have been struck by the number of loyal and able Co-operators who would like to serve the Movement on the Board of a society, but are now deterred by the suffocating number of committee and sub-committee meetings which take place in some societies. The ablest people in life are always the most busy; and many potential recruits to the ranks of Co-operative Directors cannot spare the time, or perhaps the sacrifice of family life, involved in the present round of sub-committee meetings.

We therefore recommend, as a general rule, that standing Sub-Committees of Boards should be abolished, and that the main Board should meet less often than, in many societies, it does to-day. To carry out the role of the Board described above, a monthly Board meeting would often be sufficient; a weekly meeting should be regarded as an absolute maximum. More frequent meetings than this are either a confession of failure—an admission, for example, that the Board has failed to devise the proper control techniques, or that it has chosen incompetent officials who require continuous supervision; or they are a sign that the Board is improperly interfering in day-to-day management. Less frequent meetings would at once encourage able but busy Co-operators more freely to offer themselves for election, and at the same time serve to emphasise the division of function between policy-making and management. As a corollary, the remuneration of Directors should be placed on an annual basis instead of a basis of individual meetings attended, and should (at the very least) be maintained in total at its present level.

¹We discuss the question of employee-representation in section VII.

We make one further proposal designed to strengthen the position of the Board and to assist it in carrying out its functions. Later in the Report, we make detailed recommendations for a considerable extension of central advisory services¹. In our view, Boards should at all times have access to expert guidance and advice from some national Co-operative body. This would not only, and most obviously, enable societies to improve their efficiency by drawing on a central reservoir of technical skill and experience; but it would also provide Boards with an additional check on the efficiency of their society and an objective standard by which to judge the performance of their officials.

It will be noticed that in our discussion of democratic control, we have said nothing about the role of the individual Co-operative member². We are of course aware of the figures showing that less than 1% of the membership attend business meetings of their society. But we have taken the view that the problem of member-apathy, important though it is, is an educational and political rather than an economic problem, and as such falls outside our terms of reference.

There is one point, however, at which it perhaps impinges on them. In some very large societies, with a membership numbered in tens or even hundreds of thousands, the degree of member-apathy is a threat not only to Co-operative social principles, but also, since candidates for the Board can be elected on so insignificant a minority vote, to the calibre of the Board and hence the efficiency of the society. Some societies have of course tried to meet this situation by district meetings and similar expedients.

Without wishing to lay down any firm general principle, we feel that in some very large societies both the degree of member-participation and the efficiency of selection for the Board might be improved if a new middle tier of control were to be inserted into the present structure. We might envisage the election by district members' meetings of a council of (say) some 60-70 members. This council, meeting perhaps twice a year, would be the highest authority in the society. In addition to approving the report and balance-sheet, and alone having the power to alter rules, it would elect the part-time Board of Directors, which would then carry out the functions which we have described above.

¹v. Chapter 8, section I.

²Though we discussed this in relation to the general principles of Co-operative democracy in Chapter 2, section I.

At least we feel that there is room in the large societies for experimenting with systems of election which might be at once more business-like and more democratic than the present method.

III. THE MANAGEMENT STRUCTURE

We turn now to the position of the permanent officials. Much of what we say on this subject may be taken as applying not only to the retail societies, but also, with suitable modifications, to the national federations. Our comments fall under the following heads : management structure, recruitment, salaries, promotion, training, and personnel relations.

We do not wish to lay down any single management structure as being the most suitable for all retail societies. We have, it is true, been surprised by some of the structures which we have encountered—for example, cases where as many as 15–20 departmental managers report to one Chief Executive Officer. Nevertheless, we do not believe that there is a uniquely ideal structure which is equally suitable for all societies. The right solution must depend on the size of the society, the personalities involved, and so on. We therefore make no detailed recommendations on this point.

But one general recommendation we do make most strongly : namely, that all societies (except very small ones, where the question hardly arises) should have *some* clear management structure, whatever it may be. We have formed the impression that in many large societies no explicit control system of any kind exists. There are no job specifications, no organisation charts, no definite division of responsibility between officials, and sometimes not even a clear chain of command. We therefore recommend that all large societies should, if necessary with the help of outside business consultants or the Co-operative Union¹, delineate unambiguously the duties of all top officials and a clear chain of command leading up to the Chief Executive Officer.

We have noticed that many top officials appear to be seriously overloaded and overworked. To the extent—a considerable one—that this is due to an excessive number of Board and Sub-Committee meetings, we hope that our previous recommendations may improve matters.

¹We describe in Chapter 8 how the Union might be strengthened the better to give this help.

But it may also be due to a reluctance or inability on the part of chief officials to delegate responsibility. There is sometimes a reluctance, for example, freely to give a man with a merchandising or promotional flair his head. Even more serious is the inability to delegate which arises from the fact that there are too few senior managers to whom to delegate. Generally, there is too little executive management in the Co-operative Movement, and especially too few specialist managers. We were surprised to discover that there were only eight full-time Personnel Officers in the whole retail Movement¹, and equally surprised by the number of large societies which had no advertising manager, no public relations department, no research and statistical organisation, no real estate officer, and so on. Retailing to-day is becoming an increasingly specialised business ; and the larger societies must adjust themselves to this trend by an increase in the ranks of their higher, and particularly specialist, management.

IV. RECRUITMENT

The future recruitment of Co-operative staff and officials poses, in our view, a most serious problem. It has its roots in the long-standing Co-operative tradition of recruiting staff almost exclusively at the compulsory school-leaving age.

Before the war, this policy created no special difficulty. Only an insignificant minority of working-class children, so restricted at that time were the opportunities for educational advancement, continued their education beyond the school-leaving age. The Co-operative Movement thus had almost the entire native talent of the working class at its disposal ; and the reluctance to recruit from those who had had access to further education therefore did not prevent it from recruiting large numbers of men of the highest calibre. Like other organisations, it gained an ironic and fortuitous advantage from the inequality of educational opportunities.

To-day, however, the position is different. Imperfect as our educational system still is, the combination of the 1944 Education Act and a large increase in state and local university awards has permitted an increasing proportion of working-class children access to education beyond the official school-leaving age. For better or for worse—and we are not here concerned with the comprehensive versus grammar-school controversy—the ablest children now go into the grammar

¹v. section VII for a fuller discussion of the question of personnel management.

schools ; while many more than before the war continue to the university.

Yet the Co-operative Movement still recruits almost exclusively at the compulsory school-leaving age, that is, from secondary-modern or secondary-technical school-leavers. By doing so, it largely cuts itself off from the sort of recruits who before the war provided its most outstanding leaders, but who now, because they continue to grammar school or university, are effectively debarred, under present recruitment policies, from Co-operative employment. The Movement thus places itself under an acute handicap as compared with its most formidable rivals, who have no such inhibitions.

The question therefore arises, and must be honestly faced : when the present generation of Co-operative top officials is gone, what will be the calibre of the succeeding generation if it excludes all those who have climbed the educational ladder ? The question is posed most poignantly and dramatically when we consider the careers of the children of many Co-operative leaders to-day. To a very considerable extent, these children are at grammar school or university, and hence have little hope of Co-operative employment. The same, of course, applies to the able children of thousands of other Co-operative parents.

Not only is this surely unjust to those who might wish to serve the Movement, but it constitutes a waste of talent on a scale as dangerous as it is prodigal. In our view, we face here a serious threat to the future progress of the Movement. It is true that the average calibre of recruit should be higher than it was before the war, since secondary education is now universal and the minimum school-leaving age higher. But this, of course, is an advantage shared equally by the Movement's competitors. In any case, in the highly competitive world of to-day, a trading organisation cannot survive on the calibre of its average staff ; in the end it is the calibre at the top which counts, and here the Movement will in the future be competing with one hand tied behind its back.

We therefore strongly urge a greater willingness to recruit from those with a grammar school or even university background. So as far as grammar school leavers are concerned, not only large but also medium societies would do well to take a proportion of their recruits from this source, and to concentrate on them the procedures of

management training described in a later section ; such recruits, for example, should form an increasing proportion of the annual intake into the Co-operative College. We must be scrupulous, of course, not to block the path of promotion for the remainder of the staff. A grammar school education neither can nor should be the only route to the top ; and diligent recruits who come in at 15 will still have an equal chance to rise. But the Movement cannot continue to ignore, as with rare exceptions it now does, the entire grammar school stream of the population, and make a grammar school education into a positive barrier to Co-operative employment.

So far as recruitment from the universities is concerned, naturally neither the need nor the scope is so great. The small society might have no place for a university graduate ; and even in a large society the need is limited. Nevertheless it exists, and particularly for specialist posts ; and it exists even more obviously in the national federations. We should therefore like to see an injection of graduate blood at strategic points in the Movement. The progressive private retail organisations are more and more recruiting selected staff from the universities ; the Co-operative Movement would be unwise to fall behind.

Arguments against this suggestion are, we know, often heard in the Movement ; but we have not been convinced by them. It is said, for example, that university graduates, lacking a Co-operative background, would fit uncomfortably into the Movement and cause inevitable friction. But it would not be hard to find graduates with a Co-operative family background, a belief in Co-operation, and a capacity to work happily within the Movement ; we are not, after all, suggesting an indiscriminate, but only a highly selective recruitment on a limited scale.

Again, it is sometimes said that a university background is a less efficient training for retail management than a lifetime of practical experience. To this there are several answers. First, if the graduates are recruited young, they will also acquire a lifetime's practical experience ; moreover they will naturally start by being given an intensive practical training on the job. Secondly, advanced education is at least as essential as experience for many specialist and technical positions in management. Thirdly, even for non-technical posts a university training is often a powerful advantage ; it is absurd to assert—and certainly no large-scale private business would now

assert—that it does not confer important benefits such as a trained mind, a wider experience, and a receptivity to new ideas. Fourthly, in any event, the issue is not solely whether a university (or grammar school) training itself *makes* a man a potentially better manager ; it is also that the potentially better manager to-day will *be* at the university (or grammar school) simply because under an open system of selection his innate talent will get him there. The Movement must go to where the ablest people are, even if it thinks, which of course would be most foolish, that they are not improved by being there.

We have two other specific recommendations on recruitment policy. First, in all large societies the selection and recruitment of school-leavers should be the responsibility of a Personnel Department and not of a Departmental Manager or other executive. Selection is, or should be, an expert business : and the Personnel Department is equipped, where other managers are not, to carry it out. It has trained interviewers, and a greater length and variety of experience ; its judgments and selections will be more independent and less influenced by expediency ; and it can apply uniform standards throughout the departments or branches. In view of the time and money spent on training staff, and the greater difficulty of recruiting into the retail trades under conditions of full employment and high industrial wages, it is most important to treat selection as being a responsible specialist job.

Secondly, we have been impressed by what appears to be a growing contrast between the somewhat haphazard way in which top executive positions are often filled in the British Co-operative Movement, and the more and more systematic attention given to such selections outside. The selection of senior officials, much more even than that of ordinary staff, is increasingly recognised to be, not only of crucial importance to the organisation, but also a matter for trained and expert attention. It is becoming common practice, notably in the U.S.A. but also in Britain, for firms to call in the help of business consultants, not indeed to make the final selection, which of course must remain in the hands of the employer, but to advise, after the most rigorous interviews and examination, on the suitability of the various candidates. Alternatively, of course, many large firms have highly organised Personnel Departments which can perform a similar function.

Some continental Co-operative Movements have reacted to this need by creating central advisory bodies which are regularly consulted

by societies about to make appointments. We are aware, of course, that informal consultations often occur in the British Movement, as for example with the Co-operative Union or the College ; in a sense, therefore, the principle is not new. But we feel that something more systematic is required. Not only do enlightened Boards of Directors, when faced with a list of candidates for a managerial post, themselves feel the need for a more regular and authoritative guidance than is now available, but the health of the Movement as a whole demands that the business of selection should be placed on a more systematic basis.

We therefore recommend the establishment, under the aegis of the Co-operative Union and closely linked to the College, of an Employment Advisory Service. This would, in the same way as a University Appointments Board, form a meeting place for potential recruits and potential employers. It would offer its services on an economic fee-paying basis. It would confine its attention to the top levels of management ; for, if its work is to be thorough, it must concentrate on a limited sector.

Specifically, it would first invite officials, on a voluntary basis, to register with it details of their careers and qualifications, so that a central list might be available. Secondly, it would provide societies with information about outside bodies or agencies which might be useful to them. Thirdly, so far as the actual selection of senior officials is concerned, just as private firms often call on outside consultants, so the Employment Advisory Service should be able, if approached, to conduct interviews with the candidates (including any from private trade), draw up a short list, and advise the Board on their respective merits. Naturally the whole service would be on a voluntary basis ; and of course the final choice would in any event remain firmly with the Board itself. But we think that the advantage of having access to expert and independent outside help may prove so great that it would soon become common practice for societies to seek and accept the advice of the Service.

V. SALARIES AND PROMOTION

But of course it is not enough that the Movement should be willing to widen its sources and improve its methods of recruitment ; the potential recruits must also be willing to offer themselves for employment. We must therefore ensure that not only the demand, but also the supply, is forthcoming. Whether it is will depend on the nature

of the career open in the Co-operative Movement—the level of salaries, the prospects for promotion, pension arrangements, and so on.

We have no hesitation in asserting that under conditions of full employment, and looking ahead to the next generation, the present level of Co-operative salaries will prove too low to attract the desired calibre of managerial recruit. We are aware that many societies pay above the minimum N.U.C.O. scales. But these excess payments are for the most part modest ; and Co-operative salaries in general are substantially lower than those paid by the Movement's main competitors. This is true all the way from chief officials' salaries down to the differential offered to the potential management-trainee from grammar school.

The question of salaries is inevitably a difficult one in the Co-operative Movement. A belief in equality has always formed part of Co-operative ideology. It is only human nature, in addition, that members of Boards should hesitate to pay officials a much higher income than, in many cases, they themselves are receiving in their outside occupations. The Movement must, nevertheless, face the fact that the ideal of social equality will in no way be advanced by a policy of low Co-operative salaries. The one certain consequence of such a policy will be that the area of Co-operative trade and Co-operative control of the economy will shrink, and the area of capitalist control will grow. Greater equality can come only by the action of the State ; it cannot be achieved by isolated action in one sector of the economy alone.

The question of salaries will become particularly urgent inasmuch as the non-pecuniary attractions of Co-operative employment are probably less to-day than they were before the war, and in certain ways less than the attractions of private employment. In the past, the greater security of Co-operative employment was undoubtedly a powerful inducement ; but to-day, under conditions of general full employment, this is no longer the case. As compared with private trade, the ideological attraction of serving the Movement is and should be an inducement. But, as against this, the principle of democratic control, which we fully support, in the nature of things creates problems for Co-operative officials which do not exist elsewhere. They may have less independence vis-a-vis their Boards ; there is a greater tendency towards promotion by seniority rather than by ability ; and there is sometimes less delegation of authority and opportunity for individual initiative. Moreover in some areas, if we are to be

frank, the state of the premises and the local reputation of the society are not such as to evoke that professional pride which the good manager wants to feel.

We therefore recommend that both retail societies and the national federations, when considering the recruitment of the managers of the future, should adopt a more generous attitude towards salaries—though we would add the corollary that they should then be more ready to dismiss officials for slackness or incompetence. We do not ask the Movement to copy the highest salaries or the most lavish expense accounts of the private sector ; ideological loyalty should always play a part. But we are convinced that future salary levels will need to be significantly higher than those ruling to-day¹. The skill of top management is a rare one ; and it cannot be bought on the cheap. The future of the Movement will depend in no small measure on its success in attracting a due share of this skill.

From this point of view, the prospect for promotion is almost as important as the level of salary. We have detected in the Movement a bias towards promotion by seniority which, although perhaps weaker than in the past, is still stronger than exists in private trade. Natural though this bias is, we do not believe it to be compatible with trade expansion in the highly competitive world of 1958—nor indeed is it consistent with the ideal of equal opportunity. The best men must be allowed, or rather induced, to reach the top not only in order to ensure the greatest possible trading efficiency, but also because managerial morale and recruitment depend largely on the certain knowledge that merit is the sole criterion for promotion. We therefore urge societies to base their promotion decisions solely on ability and qualifications. Any other policy is a betrayal of the duty which Boards of Directors owe to their members to conduct the affairs of their society at the highest pitch of efficiency.

VI. MANAGEMENT TRAINING

We have already drawn attention in Section I. to the major change which has overtaken the distributive trades, in common with other sectors of the economy, in recent years : namely, that the techniques of management have become more complex, more specialised, and

¹It is not only salaries which must be competitive—the same applies to pension schemes. We would advise societies to re-examine their superannuation schemes in this light.

more technical. It follows that training for management assumes a much greater importance. The days when the top executive could rely simply on flair, energy and intuition are over ; and a completely new attitude to the training of officials is now required. The retail distributive trades have perhaps been somewhat laggard in accepting the need for this change of attitude ; indeed it is clear from the Anglo-American Productivity Reports that intensive management training constitutes the most striking superiority of U.S. over British retailing.

The Co-operative Movement starts in this respect with a natural advantage. It has traditionally paid an exceptional degree of attention to training and education ; and it possesses the enviable asset of a residential College of its own. It is probably the case that a higher proportion of Co-operative officials than of managers in any comparable distributive organisation have had some training. Nevertheless we must still ask whether these advantages are being as fully exploited as they might be.

So far as "on-the-job" training of new entrants at the assistant level is concerned, the position seems broadly satisfactory. Although standards vary considerably as between societies, the average standard at this level compares favourably in both quantity and quality with the average practice of private retail concerns. Our only recommendations are first that in all large societies this training should be the responsibility of a specialised Personnel Department and not of the Education Committee, whose main functions should lie in the sphere of non-technical education ; and secondly that the enlarged Labour Department of the Co-operative Union, which we mention in the next Section, should give more advice to societies than is given to-day on what they should be doing in this field and what is the experience both of other societies and of private trade.

When we turn to the training of the potential managers of the future, the position is less satisfactory ; in particular, the excellent resources of the Co-operative College are not being used to the maximum advantage. The main fault, in our view, lies on the side of societies, and is bound up with the lack in most societies of any proper system of management trainees. We believe that all societies, except perhaps the very smallest, should adopt such a system ; that is, they should deliberately select their most promising material in the 20-25 age-group and give them intensive training, both on the job and outside it, as the potential senior officials of the future.

A course at the College would form an essential part of this training ; and the selection of candidates for the College would then be integrated into an explicit system of training for management. At present, this selection is a somewhat haphazard affair. Many societies take little interest in who goes and who does not ; some are even reluctant to release their best potential candidates ; generally, the choice is largely a matter of self-selection, depending on the determination of the individual rather than the training policy of the society. As a result, the College does not always obtain the best material ; and the students often find their prospects of promotion little improved by having attended. But if selection were made an integrated part of a purposive system of management training, the College would obtain the best material available in the Movement ; and there would be a definite link between selection and future promotion. We therefore recommend that the present system of (largely) self-selection should come to an end, and that societies themselves should select for the College those whom they have already picked out as management trainees.

Turning to the content of Co-operative training, we have no criticism to make of the "Co-operative principles" or social-studies aspect of it. But we have one general criticism of its technical side, namely, that it exaggerates the extent to which the techniques of Co-operative retailing differ from those of other forms of retailing. In our view, they differ in only two major respects : first, Co-operative accounting, and secondly the unusual relationship of the officials to the democratically-elected Board of Directors. We make reference to the first below ; the second concerns only the top, and not the middle, ranks of management. In all other respects the actual *techniques* of retail management, and hence the requirements of management training, are the same in Co-operative as in private retailing.

But the implied belief to the contrary in the Co-operative Movement leads to a certain isolation and consequent conservatism in the field of ideas, techniques, and innovation. There is too little exchange of knowledge with the private sector, too little awareness of new developments at home and abroad, too narrow an emphasis on specifically Co-operative practice and tradition. The result is a certain technical backwardness in Co-operative managerial practice.

In order to reduce this, we make the following specific suggestions. But we would emphasise that all these suggestions are based on the

assumption that the College remains the basis of Co-operative training for management. Indeed they carry with them the corollary that the College should be given considerably more resources in order to raise its own standards.

First, the Education Department should experiment with the appointment as College tutors (in the technical field only) of people with a non-Co-operative retailing background—provided, of course, that they bring genuine new experience with them and are in sympathy with the ideals of the Movement.

Secondly, there should be relatively less emphasis on purely Co-operative certificates and diplomas, and a greater willingness to consider accepting and teaching for outside national certificates (such as the new Certificate in Retail Management, the National Retail Distributive Certificate, and those awarded by the British Institute of Management or by other more technical bodies). We do not mean by this that the distinctive element of tuition in Co-operative principles and social studies should disappear; on the contrary, it should be retained and added to the technical teaching required for the outside certificates. It is only on the technical side that we wish to see, not indeed the disappearance of the existing Co-operative certificates, but a somewhat greater willingness to experiment with outside ones in order to achieve more interchange of ideas and experience.

Thirdly, more use should be made of the facilities provided by outside institutions such as the College for the Distributive Trades, the British Institute of Management, local Technical Colleges, and (at a higher level) the Administrative Staff College. We are aware that there is already a growing readiness to make use of such facilities; we should like to see it carried still further.

Fourthly, the Movement should examine once again the question of Co-operative accounting practice. We know how much thought has been and is being devoted to this matter. But we have nevertheless concluded (rather ruefully) that existing practice is both unnecessarily confusing to the ordinary Co-operative member, and unnecessarily different from what is normal in the world outside, so that comparisons are exceedingly difficult to make¹. We therefore recommend that a further effort should be made both to simplify the

practice and to assimilate it more closely to normal accounting practice. If this could be done, one of the strongest causes of the present "separateness" of Co-operative technical training would be eliminated.

We have no detailed criticism to make of the type, length or level of the courses offered at the College and elsewhere, though we welcome the present tendency to experiment with shorter "sandwich" courses instead of placing the entire emphasis on one-year or two-year courses.

But there is one further development which we should like to see considered. We have had in mind so far primarily the young management trainee of between 20 and 30. But there is some evidence for the view that the most serious deficiency in the distributive trades as a whole is the lack of "executive development" courses for older (say, 30 to 40) men in the middle ranks of management who are aiming to reach the top. The Education Department already makes some provision for refresher courses. But we recommend that it should consider a more systematic programme of intensive one-month or two-month courses for those at or (preferably) above the branch manager level who might, given the right training, reach the top.

VII. LABOUR RELATIONS

Co-operators sometimes argue that proposals such as we have made in the preceding three sections, although no doubt desirable, are in practice rather unreal since they will be successfully resisted by the employees and the Trade Unions. We therefore turn to consider the position of employees in the Co-operative Movement. We do not discuss questions of wages and conditions of work, having been instructed that these fall outside our terms of reference. But personnel matters which do not come within the sphere of traditional collective bargaining are, we understand, within our competence.

The view that desirable reforms in management policy will be frustrated by the employees is often linked with criticisms of employee-control of Boards of Directors. It is said that societies which have employees on the Board show the worst record in matters of recruitment, promotion, and so on. We have not found this to be generally the case. We have certainly found individual cases where employee-control has led to reactionary and inefficient management policies. But we have also found such policies being pursued in societies with no employees on the Board; and similarly we have found employee-controlled societies acting in a progressive and enlightened manner.

¹We found it extremely hard, for example, to construct for the Co-operative Movement tables showing the uses and sources of capital funds and the appropriation of income; these can easily be constructed for private trade. (v. Chapter 9 for details.)

No generalisation is possible ; indeed if efficiency can be correlated with any single factor, it is probably with the calibre of the chief official rather than with the number of employees on the Board.

In any event, even supposing that employee-control were manifestly undesirable, it could not be prevented merely by limiting the extent of employee-representation on the Board. Some of the societies the most completely dominated by employees are to be found amongst those which limit the number on the Board to two, or even have none on the Board at all. The control is exercised either by the election of retired employees or employees of other Co-operative organisations, or more simply and more commonly by bringing organised pressure to bear on non-employee Board members at election time.

We would, in any case, be unwilling to deny the right of members, if they so decide, to elect employees to the Board ; such a decision lies fully within the democratic competence of the members of a Co-operative society. Moreover we have found societies in which the employee-representatives, partly because of their personal experience of retail problems, are amongst the most useful and sagacious members of the Board.

Nevertheless, we do not regard complete employee *control* as desirable, even though, as we made clear above, we do not think it guilty, where it exists, of all the sins which are commonly attributed to it. Complete and unilateral control by the workers must be held to be inconsistent with the Co-operative ideal of a consumer-democracy ; and certainly it is not permitted, so far as we know, in any other consumer Co-operative Movement in the world. The employees constitute only a small fraction of the total membership ; and, in the short run at least, their interests and those of the majority of non-employee members are by no means always identical. The result must be that employee Board members suffer from a clash of loyalties ; and however hard they try—and we are sure that they try hard—it cannot always be easy for them to place the interests of the whole membership above those of their fellow-workers. In the light of this unavoidable conflict of responsibilities, we think it unfair to the employee-representatives themselves, as well as to the society as a whole, that they should be in a majority on the Board.

No universal rule can be laid down which is equally applicable to 950 societies operating in the most varied circumstances. We therefore

confine ourselves to two comments. First, we would hope that the employees and the Trade Unions, in their own interests as well as in those of the Movement, will not, even where they have the power, seek a majority control of the Board. Secondly, although we would not urge it universally, we see no objection to the system, already adopted by a few societies, whereby a proportion (though not a majority) of the Board is elected by and from the employees, who then do not vote in the election of the other members of the Board. We think this is an experiment which might well be considered in individual cases.

But we deliberately put less stress than is usual on the question of employee-control. This is partly because we do not believe that the problem would be acute if the respective functions of Board and officials were clearly defined in the manner suggested in Section I. And partly it is because employee-control is often, in our view, made the scapegoat for failures on the side of management. Many of the complaints against it are only reflections of a certain weakness which afflicts the whole field of personnel relations in the Co-operative Movement. We say quite bluntly that, with some exceptions, we have not formed a wholly favourable impression of the state of these relations.

Co-operators often argue, and use the argument to support their view that Co-operation is a socially superior form of organisation, that the status of the worker is higher under Co-operation than under other forms of enterprise. We have not found this in practice always to be the case. No doubt Co-operative wages and conditions compare well with those in the private retail trade. But we are now long past the day when the only test of a good employer was whether he accepted national agreements on wages and conditions. To-day, an enterprise, whether Co-operative, nationalised or private, is judged by much more rigorous and extensive standards ; and by these the Co-operative Movement, except for a minority of retail societies, comes out only fairly well.

Thus if we compare the Co-operative Movement (and we have in mind the wholesale equally with the retail societies) not with the average private employer but—and this is surely the proper comparison—with the most progressive nationalised and private concerns, we find that the position of the Co-operative worker is by no means necessarily better. At the national level, neither the retail nor the wholesale wing of the Movement has any joint consultative machinery

with the Trade Unions at which matters other than wages and conditions can be discussed. At the local level, few societies have effective consultative machinery, or even practise informal prior consultation with the Trade Unions. The attention paid to personnel problems generally is quite inadequate ; as we have already pointed out, only eight retail societies have full-time Personnel Officers—a derisory figure. There is a lack of guidance from the centre on such problems as incentive schemes, training, recruitment, and the like. At almost all levels, the lack of confidence often apparent between management and Trade Unions has both surprised and disturbed us.

No doubt the faults are not all on one side. But we believe that the main fault lies on the side of management. The Co-operative Movement has not fully kept pace with the rapid improvements in personnel management which have occurred in the last two decades. Most progressive large-scale concerns to-day regard personnel management and human relations as being a central and specialised aspect of the management function ; and they study it seriously and systematically. They have large personnel departments staffed by specialists ; they maintain close contact with the universities ; they increasingly call in outside experts to assist them ; and they keep abreast of developments in the field of industrial psychology. As a result, the labour policies of many nationalised and private concerns are significantly more enlightened than was normal two decades ago. There is now often a high degree of co-operation with the Trade Unions : a smooth-working machinery for raising complaints : a close attention to the training of supervisory staff : a marked willingness to settle grievances quickly and on the spot : and a constant effort to disseminate throughout the organisation information about what is being done and why. We have found too little of this in the Co-operative Movement. It has just kept pace with the average, but it has been outstripped by the best non-Co-operative concerns.

We therefore make the following recommendations. First, at the national level, both the Co-operative Union and the Wholesale Societies should establish some form of Joint Industrial Council with the Trade Unions in addition to the existing wages machinery. At present there appears to be no machinery, on either the retail or wholesale side, for contact or consultation with the Trade Unions other than on wages and conditions. We believe that the Movement should now follow the example of some of the nationalised industries, and establish machinery for discussing not only questions such as staffing, labour

turnover, training, and promotion, but also the wider economic problems facing the Movement. If this were done, the Trade Unions would be encouraged to show a more active concern for these problems ; and many of the present frictions might disappear.

Secondly, the Labour Department of the Co-operative Union should be expanded in size and given explicit new functions. We have heard nothing but praise for the way in which it carries out its present functions. But these are for the most part confined to wage-negotiation and conciliation. What is needed in addition is a central expert body which concerns itself continuously with such questions as bonus and incentive schemes, staff training, recruitment policy, joint consultation, and personnel relations. The Labour Department of course already examines such questions, but not on the scale which we have in mind. It should therefore be considerably expanded. It should keep close contact with the Trade Unions. It should circulate information to societies about what other societies are doing, which at present they do not always know, and about new developments elsewhere in industry. And, most important, it should be in a position itself to offer expert advice and guidance on all these questions, and should be available to any society in the role of a specialised industrial consultant.

Thirdly, we recommend that the C.W.S. and S.C.W.S. should devote more attention and resources to personnel relations, and should expand their central labour departments. We are aware, of course, that joint consultative machinery exists in many factories belonging to the Wholesale Societies. But it does not always appear to work satisfactorily ; and moreover we have the impression at all levels of a certain lack of effective contact with the Trade Unions, and a consequent lack of mutual confidence. Certainly labour relations are as good as they are in the bulk of the capitalist sector. But they should surely be superior ; indeed one might have expected the Wholesale Societies, especially with the example of the productive societies before them, to have been foremost in experimenting with different methods of workers' participation. Instead, we find that they perhaps devote less attention to personnel management, and to cultivating harmonious relations with the Trade Unions, than do the best nationalised or private concerns. We would therefore urge a concentrated effort in this direction.

Fourthly, at the retail society level, we recommend that all societies with more than 500 employees (which would be some 125 societies)

should have one official carrying out a specialised personnel function, and that the largest 50 societies should all have a full-time Personnel Manager with a Personnel Department. The Personnel Manager should have the status of a departmental manager ; and he should be responsible not only for staff recruitment, training, incentive schemes, and labour relations, but also for advice to the Board on promotions and appointments and on internal postings and transfers. (In the less large societies he might be given some of the functions which in the very large society should come under a separate Public Relations Department.) At present these responsibilities are often discharged either by Departmental Managers who—and this is no criticism of them—have neither the time, the expertise, nor the impartiality to discharge them properly : or by the Education Committee, which in our view should concentrate much more than now on non-technical Co-operative education, and leave what is a technical managerial function to the executive side of the society.

Lastly, we recommend that societies should adopt a definite policy of regular consultation with the representatives of the employees. We do not wish to lay down any particular machinery of consultation, partly because many alternative forms will produce the desired result, but mainly because the question of machinery is in our view subsidiary. To impose an elaborate machinery on a situation of mutual suspicion or on a badly-managed society or Co-operative factory will only provide a new source of friction, or lead to sloppy management and more indiscipline. The important thing is the attitude of mind ; if that is correct, the machinery will look after itself.

This attitude should be one of co-operation with Trade Union officials, together with a desire to interest the body of the employees in the affairs of the society. So far as the first is concerned, the management should be not merely ready, but anxious, to take the Trade Union officials into their confidence, and to consult them automatically before (for example) making changes in working hours, recruitment policy, methods of work organisation, bonus and incentive schemes, etc. (Naturally the consultation will not impinge on matters which are the subject of national agreements.) Similarly, the Trade Unions should be actively associated (as they are in the nationalised industries, whose example here could be studied with profit by the Co-operative Movement) with management training and promotion schemes. Generally, the Trade Union official should be regarded not as an enemy, but as a potential ally with a positive

contribution to make to higher morale and efficiency. Certainly the more he is taken into the management's confidence, the more likely he is to act like an ally and not an enemy.

So far as the body of employees is concerned, an enlightened management will not only set up consultative machinery, but will also, by means of suggestion schemes, lectures, house magazines and the like, make clear that it is genuinely interested in the ideas of its employees, and genuinely concerned to give them all possible information about the policies and progress of their society. The indifference and even suspicion of many employees to-day is sometimes only a reflection of the indifference of Co-operative managements to the views and feelings of the staff.

We do not mean to imply, either on this or the other matters discussed in preceding sections, that the Trade Unions or the employees are always blameless. Often they are not—we have encountered depressing instances of obscurantist opposition on the part of employees to enlightened management policies ; though, if the changes which we propose on the side of management are carried out, we are convinced that the Trade Unions will, on their side, co-operate in implementing the required policies on recruitment, training and promotion. But good personnel relations are, in the last resort, a responsibility and function of management ; and it is on this side that the greater changes will be needed.

Chapter 6

THE SIZE AND NUMBER OF RETAIL SOCIETIES

There has always been argument in the Co-operative Movement as to the relative merits of large and small societies, the "ideal" number of societies, and the pros and cons of amalgamation. At one extreme, many people from J. C. Gray onwards have asserted that the only solution to the Movement's problems was the creation of a single National Society. At the other extreme, some Co-operators defend the small society as being not only more socially desirable, but also more efficient. There has, of course, been a steady decrease in the number of societies, and increase in the average size, during the past half-century. But the number is still nearly 1,000; and a high proportion of these are very small. The issues are therefore as live and controversial as ever they were. We attempt in this chapter to examine them dispassionately and, at the end, to submit concrete and detailed proposals.

I. THE BENEFITS OF RATIONALISATION

The most obvious, as it is the most conventional, argument for reducing the number of societies relates to the waste of resources, both human and material, which arises from the existence in close proximity to each other of several separate societies. The Co-operative Movement differs from other retail organisations in being composed of autonomous local units, each sovereign and each trying to provide a full range of services in its own area. If all these areas were large and had natural boundaries, no special difficulty would arise. But they are not; for frequently several contiguous societies are serving the same urban or rural market. Where this occurs, the Co-operative Movement cannot, as a unitary organisation would, streamline and rationalise the number and distribution of its shops, its other capital assets, and its managerial personnel, with the object of serving that market with the minimum use of resources. The result is inevitably waste and duplication.

This waste is often attributed in Co-operative discussion specifically to overlapping and the resultant "competition" between societies. Of course it is most obvious where there is direct overlapping. It is then that we observe the notorious instances of similar shops owned by different societies facing each other across the street, neither trading

to its full potential; it would manifestly be more economic to convert one to another use, or even perhaps to close it down. Or we see under-utilised mobile shops from two societies serving the same housing estate, or the transport of one society having to cross another society's area in order to reach some of its own customers.

But although these are the most conspicuous examples of duplication, they are not, in our view, the most significant ones. We are concerned, rather, with the more typical case where the waste is due not to direct overlapping, but simply to the existence of several societies in a single market area or in close proximity to each other.

The duplication may then take many forms. There may be an excessive number of grocery shops, with the result that some are trading below capacity: or a duplication of warehouses, if several societies have their own when one large central warehouse could well serve the whole area: or an inefficient use of transport, because vehicles are doing short or uneconomic journeys: or a waste of office and building space, because each society has its own separate offices when the whole area could be adequately served by one head office: or an excessive number of productive or service units such as bakeries, dairies or laundries, with a consequent under-utilisation which could be avoided if some were to be closed down and production concentrated in fewer and larger units.

There is often a corresponding waste of working capital. This applies especially to stocks. If several societies in the same area all carry a full range, more capital will be tied up in stocks (and more warehouse space will be required) than if a single organisation held stocks centrally, with freedom to move them about the area as they were needed.

The duplication of managerial personnel, although less obvious, may be equally serious. The more separate societies there are, the more separate buyers there must be, the more office and administrative personnel, the more transport and warehouse staff, and so on. We do not suggest that there could be rapid economies here, since any process of concentration must be accompanied by guarantees of continued employment¹. But in the long run a reduction in the number of societies would lead to a significant economy in staffs and managerial overheads.

¹v. section VI below.

We mentioned above the waste of *existing* fixed capital. But there may also be waste of *new* fixed capital ; that is, development may be lop-sided and ill-directed. In a single market area, decisions about new shops, for example, cannot properly be taken piecemeal by a number of separate units. There must be a central, overall conception of what types of shop are most needed in which locations. Such a conception must be lacking if two or six or 10 societies are making unco-ordinated local plans without regard for the total picture.

The risk of mis-directed new development is greater than ever to-day on account of the familiar tendency for dry goods trade to flow across societies' boundaries. Thus if one society covers a main shopping centre, while a large part of the catchment-area lies within the boundaries of one or more other societies, the latter may react to their loss of trade by trying to develop new dry goods facilities in their own areas—which would normally be the wrong place ; while the former may suffer because the members of the outlying societies, on their visits to the shopping centre, have no particular incentive to patronise its dry goods stores in preference to those of its private competitors.

Similar problems, again due to the flow of trade across societies' boundaries, may occur within large cities. Perhaps a central department store is needed ; but it may not be erected because the society in the central area would have to shoulder the entire risk and cost, whereas the benefit would be diffused amongst the members of several other societies. Or, again, a large city may have (say) four main shopping centres, each calling for a Co-operative department store or a large specialist shop ; but if there are 10 societies in the city, it is a matter of pure chance whether the stores are built in these shopping centres or elsewhere. These risks are inevitable when societies' boundaries cut across the flow of trade.

Lop-sided development may also occur because the separate societies in a single area have varying degrees of financial strength. Some may have ample capital, but little need for it ; they may then be tempted either to undertake unnecessary development, or perhaps to invest their surplus capital outside the Movement. Neighbouring societies, on the other hand, may urgently need to develop, but lack the capital to do so. This situation is especially common where movements of population are altering the relative capital needs of neighbouring societies, so that whereas some societies need at best to

maintain, if not actually to reduce, the number of their shops, others are faced with the need for a sudden expansion. We have found societies which, because their areas are gradually being de-populated, have more capital than they need themselves ; yet the societies into whose areas the population has migrated cannot develop as they should for want of capital.

We conclude that the existence of several separate societies within a natural trading area in the first place leads to a waste and duplication of resources, and in the second place frustrates any possibility of deploying Co-operative capital according to a unified and co-ordinated plan ; instead, it is deployed quite haphazardly according to the historical accident of existing boundaries, and the fortuitous chance of which societies have the most capital or the more thrusting managements.

Of course the position can sometimes be alleviated by methods other than concentration. Federal action, inter-trading schemes, the redistribution of capital through the Wholesale Societies—all these have a part to play, and are discussed in later sections or chapters. Again, a revision of boundary agreements can sometimes reduce waste and raise efficiency, especially in relation to transport and delivery. This is particularly true in the light of the movement of population into new housing estates ; we have found cases where a neighbouring society (often the one from which the population has been decanted) could serve a new estate better than the society in whose area the estate is built. We would certainly favour a general revision of boundaries in the light of such considerations.

But although we should favour the revision of many *existing* boundary agreements in order to transfer particular areas from one society to another, we must emphasise that we should normally oppose the conclusion of new or yet more rigid agreements in order to eliminate overlapping. Direct overlapping is only a minor cause of the wasteful use of capital ; and boundary agreements will seldom lead to a more co-ordinated use of resources. Indeed they might actually be more undesirable than the competition which ensues from overlapping. They may protect and encourage sloth and stagnation, whereas competitive penetration by a more vigorous into a more indolent society's area might inspire the latter to greater efforts, and so improve the range and quality of Co-operative services. The "aggressor" society is not always to blame ; there might be no

opportunity for aggression if the "victim" society were doing its job. Generally, too great an emphasis on boundary agreements comes perilously close to a restrictive practice. The right answer to overlapping, therefore, is often not a boundary agreement which would merely perpetuate an existing waste of capital, but a policy for rationalising the use of capital throughout the area of the overlapping societies.

To revert to the wider problem, although we concede that the policies of co-ordination mentioned above—federal action, inter-trading, and the like—sometimes have a useful role to play, we have become convinced that they are, at best, palliatives and partial answers, and that the most logical, direct and effective answer to duplication and lack of planning, where these are strongly in evidence, lies in amalgamation.

We should therefore favour a measure of amalgamation in all those cases where more than one society is serving a natural trading area. But of course this alone, quite apart from the problem of defining a trading area, does not constitute a complete or sufficient policy for amalgamation. First, it does not tell us whether or on what scale amalgamation is required in areas where duplication is not conspicuous. Secondly, even in those areas where it is, we still need to know how far amalgamation should be carried. To answer both these questions, we must know what is the most efficient size of retail organisation, and how much importance is to be attached to either economies or diseconomies of scale.

II. THE ADVANTAGES OF SIZE

It appeared at one time that the economies of scale, which were leading to so rapid a process of concentration in industry, had much less application to the distributive trades. The small independent trader long continued to dominate the retail scene; and there were few large organisations in any way comparable to the giants of industry. But recent decades have witnessed a steady trend towards larger organisations even in retailing. In the private sector, the multiples have grown almost from nothing to their present formidable size; while a steady process of concentration has occurred amongst the large department stores. In the Co-operative Movement also, the average size of society is now much larger than it was (say) 30 years ago.

What reasons are there for believing that the larger society will have an advantage over the smaller? First, there is likely to be a managerial gain. We have in mind particularly the question of specialisation. A small society's turnover will not justify the appointment of a separate Transport Manager, Advertising Manager, Personnel Officer, and so on; these specialised tasks will be undertaken by non-specialist personnel. This disadvantage may be most obvious in respect of dry goods trade, which to-day needs to be broken down into specialised departments with specialised management and, above all, specialised buyers. This is impossible with the low dry goods turnover of a small society; and the trade will then be the responsibility of the General Manager or at best a single Drapery Manager, rather than of expert departmental heads. It is no offence to such officials to point out that under modern conditions all branches of management are becoming more and more expert and professional; and a society's progress may increasingly depend on whether its size enables it to employ a sufficient number of specialists.

Secondly, for many commodities, the larger the scale of buying, the greater the economy for both buyer and seller. To buy in bulk and not in dribbles means better terms for the retailer. It also means a more economical production run for the manufacturer. It is agreed that one of the worst handicaps which Co-operative producers face is the staggering number and variety of orders which they receive. We discuss later other methods of bulking Co-operative demand; but one exceedingly obvious method would be to reduce the number of separate buying units by amalgamation.

Thirdly, there are also economies of scale on the selling and distributive side. The management of 10 or 50 shops should be more efficient than the management of two; overheads can be spread; costs can be reduced by standardisation; and management should be more experienced and skilled. Similarly there are often economies in transport and the handling of goods if bulk supplies can be delivered to a central warehouse for redistribution to a number of selling points.

Fourthly, the small unit is at a disadvantage in respect of finance. It will frequently not possess the resources to provide a full range of Co-operative services. We are not thinking here of major dry goods development, which would often be inappropriate in a small society's area, but of renovation or conversion of existing premises, the financing

of adequate stocks, the development of such lines as butchery, milk delivery, coal delivery, pharmacy, etc., the purchase of local shops in hitherto unpenetrated areas, or the undertaking of local processing.

Fifthly, development may be held up not by a shortage of capital, but by the limitation of the size of market. A small society may occasionally possess the capital to provide the services just mentioned ; but the turnover to be expected would not justify the expenditure, and the services are therefore not provided. In other cases the expected turnover might justify the expenditure ; but the small society is not prepared to incur the risk. Generally, the larger organisation, because it can spread its risks, is less likely to be deterred from undertaking capital expenditure.

But all these, it may be said, are only statements of opinion, not backed by concrete evidence. This of course is true—though it would be fair to add that the opinions are almost universally shared by those with business knowledge. Naturally one can never definitely prove a question of this sort one way or the other. Nevertheless we should have strong support for our view if we found that large-scale organisations were consistently, over a long period of years and in almost all trades, drawing ahead of smaller-scale organisations. And in retailing this is roughly what we do find. That is, the multiples, which operate on the largest average scale, have expanded fastest ; the independent retailers, who operate on the smallest scale, have expanded least ; and Co-operative societies are in the middle in terms both of expansion and of scale.

It is worth considering the contrast in average size between Co-operative societies and the multiple shop organisations, since it is clearly the latter which constitute the main threat to the Movement. The wide dispersion in size of Co-operative societies is well known. We give the detailed figures in Table 13. They show that in 1950 there were 400 societies, or nearly half the total number, with less than 10 establishments each, and only 51 with more than 100.¹

However, we cannot deduce very much about the scale of operations from figures which cover a variety of different trades ; for purposes of comparison, we must break the figures down into individual trades.

¹An establishment is defined as a shop or other establishment at or from which the actual selling of goods takes place. The term thus includes not only shops, but also (for example) travelling vehicles.

TABLE 13. Size of Co-operative Societies, 1950

Societies Possessing	Number of Societies	Number of Establishments	Sales, £ 000's
1 establishment ..	100	100	3,605
2-4 establishments ..	130	383	7,290
5-9 ..	170	1,194	20,078
10-24 ..	310	5,052	86,455
25-49 ..	154	5,160	106,110
50-99 ..	85	5,756	122,762
100 or more ..	51	9,618	257,086
Total	1,000	27,263	603,386

SOURCE: *Census of Distribution, 1950*, Vol. II, Table 25.

Taking the food trades first, we can make a comparison between the Co-operative and multiple scale of operations by taking only those societies which operate 10 or more branches. (A multiple shop organisation is defined as an organisation controlling 10 or more branches in the trade concerned.) On this basis, we find that in grocery and provisions, 73% of the multiple shop branches were operated by firms (some 60 in number) with over 50 branches each ; but only 37% of the Co-operative branches were operated by societies (38 in number) with over 50 branches each. Again, 58% of the multiple branches were operated by about 20 firms with over 100 branches each ; 15% of Co-operative branches were operated by eight societies with over 100 branches each.

The small scale of operation of retail societies, even in groceries, becomes still more obvious if we include all societies in the comparison. In addition to the 317 societies with 10 or more grocery branches, there are 650 other societies operating a total of 2,402 branches, or an average of 3-4 per society. There are 166 societies with one branch each, 255 societies with 2-4 branches each, and 229 with 5-9 branches each.

Turning to the non-food trades, the contrast in scale can only be called staggering. Indeed it is so staggering that it cannot be considered relevant to a discussion of the size of local societies ; that is, the gap is so wide that it could never be closed, or even appreciably narrowed, by any programme of amalgamation, however ambitious. It would require action on a national scale by a national body. We therefore postpone giving the detailed figures until the next chapter, where we discuss what form this national action might take.

Now it may, of course, be wholly a coincidence that the multiple firms are both gaining on the Co-operative Movement and also have a significantly larger average scale of operation, just as it may be a coincidence that their gain is largest where the difference in scale is greatest (namely, in dry goods), and smallest where the difference in scale is least (namely, in groceries). But we think that few unbiased observers would care to assert that these facts were entirely unrelated.

There is, however, one criticism of this point of view prevalent in the Movement. This asserts that whatever may be true outside, within the Movement experience demonstrates that small scale is still superior. Thus Co-operators will often point to the high trade per member and strong capital position of many small societies.

While admitting that there is often substance in the individual cases quoted, we are not persuaded that they can be made the basis of a valid generalisation. High absolute figures of this kind are often to be explained by factors other than the intrinsic virtues of the small society. They usually occur in the older Co-operative areas, where the number of shops and the degree of penetration were already remarkable even before the 1914 War; they are perhaps rather a tribute to how well the Co-operative pioneers built, in Scotland and the North especially, than to the efforts of the present generation. And it must be remembered that the small society normally faces much less competition from the multiples, the variety chains and the department stores than do the larger societies in the main shopping centres.

Moreover, if we look at the matter in terms of trade progress—and this after all should be our main concern—we find a somewhat different picture. We give in Table 14 figures to show how different sizes of society compare with the national Co-operative average in respect of increases in trade between 1948 and 1955. We divide societies into two groups (below-average and above-average) according to whether their trade increased by more or less than the increase in national Co-operative trade between these years.

These figures leave little doubt that a clear relationship exists between size and trade progress. The proportion of below-average performances declines steadily with increasing size; the proportion of above-average performances rises steadily with increasing size. Such deductions are, of course, inevitably crude. Many other factors may

TABLE 14. Trade Progress of Societies by Size Groups, 1948-1955

Size Group of Society by Membership	Proportion of Total Societies in each Group Showing 1948-1955			
	Below average		Above average	
	Societies	Per cent	Societies	Per cent
Below 2,000	224	66.47	113	33.53
2,000- 5,000	137	58.30	98	41.70
5,000-20,000	141	55.73	112	44.27
20,000-40,000	35	54.69	29	45.31
Over 40,000	25	41.67	35	58.33

also influence relative trade progress—movements of population, relative income changes, the initial degree of penetration, and so on. Nevertheless, the relationship shown in Table 14 is so clear as to be, to say the least, suggestive.

The picture shown by Table 14 is of course reflected in the figures, already quoted in Chapter 1, of the relative trade progress of different Sections¹. Those Sections showing the least satisfactory progress also have the largest proportion of small societies. Of the 576 societies in the North-Eastern, North-Western, Scottish and South-Western regions, 67% have less than 5,000 members; of the 372 societies in the other four Sections, only 50% have less than 5,000 members.

III. THE "IDEAL" NUMBER OF SOCIETIES

We have therefore concluded, on the basis of business experience generally, the contrast between the average Co-operative and multiple scale of operations, and the Co-operative figures quoted in Table 14, that there exist important economies of scale in retailing, which the great majority of Co-operative societies are now too small to enjoy. It follows that we favour the creation of fewer and larger retail units in the Movement.

But these arguments do not tell us clearly how far this process should be carried. They tell us that most societies should be larger than they are to-day, but not how much larger. We still need to know, at least in general terms, what is the right size of society, and hence what is the right number of societies, to be aimed at.

Are the economies of scale such, for example, that a single national society would constitute the most efficient unit of operation? The majority of us have decided, after the most careful consideration,

¹v. Chapter 1, section III.

that there is no clear evidence that they are. We suggested above that the larger average size of the multiple organisations, in the light of their more rapid rate of progress, afforded *prima facie* evidence that most Co-operative societies were too small. But it does not afford any evidence in favour of a single national society, since not even the largest of the most successful multiples are as large as a national society would be.

There were in 1955 some 31,500 Co-operative retail outlets. These extend all over the British Isles ; and they cover the entire spectrum of retail trade from milk and bread to fashion goods and television sets. The largest (as judged by number of shops) private retail organisation in the country controls nearly 4,000 shops or stores (all in food) ; the most famous mail-order combine controls 1,600 shops (almost all in dry goods) ; the two most famous chains of variety-stores have respectively 1,000 and 240 stores ; while the majority of successful food multiples range from 20 to 300 shops. The largest *forty* multiple firms control between them 25,000 shops—fewer than a *single* national Co-operative society would control. Most of these private chains, moreover, are to a considerable extent specialised, and not all-purpose providers like the Co-operative Movement ; and many of them are geographically localised as well.

It will be seen that a national Co-operative society would be of a size and heterogeneity unique in the British distributive trades. (It would also be much larger than the C.W.S., which is already of a formidable size.) In view of the many unsolved problems associated (notably in the nationalised industries) with so vast a national scale of operation, and the fact that the most successful multiple organisations have not found it necessary even to approach this scale, we can see no compelling economic argument for a single national society.

We for our part would in any case consider the social arguments against it as decisive. We drew attention in Chapter 2 to the importance which we attached to the preservation of the local unit ; and, in addition, we should have the gravest doubts as to whether "democracy" would retain much meaning or reality within a national society. However, since we are not convinced of the economic arguments in its favour, these social considerations perhaps hardly arise.

We thus do not suggest that the Movement should aim for the largest possible size of society, still less for a single national society. We would rather say that there is a *minimum* size, as measured by the

number of shops, below which societies cannot adequately reap the economies of scale.

We then immediately face the difficulty that Co-operative societies are multi-purpose retailers, simultaneously engaged in a large variety of trades : and that the most efficient size of organisation varies markedly from one trade to another. It is therefore harder to specify what is the desirable size for a Co-operative society than it would be for a specialised retail organisation.

Thus the most efficient scale of operation is not the same for food as for non-food, nor even for different trades within these categories. In fish and greengrocery, for example, the advantages of large scale are not decisive, which no doubt explains the comparative lack of success of the multiple organisations in these fields. In groceries, on the other hand, the economies are considerable—notably of large-scale administration, buying and central warehousing ; and experience suggests that they cannot be reaped below an absolute minimum of 10 shops and probably nearer 20.¹

In dry goods again the point at which notable economies can be achieved varies between trades, being different, for example, in furniture and apparel. In most cases the point is probably reached where the scale of operations permits specialisation of the buying function. But there are also important economies on the selling side, in respect, for example, of merchandising, display, stock-control, and so on ; and again these occur at different sizes in different trades.

There is therefore no one "optimum" size which can be laid down for Co-operative retail societies. This does not mean, however, that no guidance at all can be given. Co-operative societies, although involved in many different trades, are not equally involved in all of them ; and it would seem sensible to start by defining a minimum size by reference to the most important sector of their trade. This is of course the food trade, and notably, if we assume that bread and milk may be proper fields for federal action, the grocery trade. We should therefore recommend as a first object of policy that societies should be large enough to achieve significant economies of scale in groceries.

Both Co-operative and private experience which we have drawn on suggest that a chain of at the very least 10, and more probably

¹v. below.

20, grocery shops is the smallest unit capable of generating these economies. There are over 750 Co-operative societies with fewer than 15 grocery shops each. It does not of course follow that all these should be amalgamated into larger units. Some medium sized societies are expanding rapidly, and will soon reach this size of their own accord; other societies, both small and medium, are covering a natural and isolated market, and have no convenient neighbours with whom they could unite. Nevertheless, the great majority of societies with under 15 to 20 grocery branches do have contiguous neighbours, and are either not growing fast enough, or else their expansion is or will be limited (as it would not be in the case of a private firm) by boundary agreements which prevent their reaching the desirable scale. Such societies should, in our view, amalgamate. We cannot lay down a definite figure for the "ideal" number of societies which would follow from the application of this criterion, since without a national survey no one can know the number of genuine "exceptional" cases. But of course it would be incomparably smaller than the present number.

The retail Movement would then enjoy a reasonable minimum scale of operation in groceries, and also in other food trades where the optimum size is smaller than it is in groceries. Societies would often still not be large enough to operate an efficient bakery or dairy business; but we assume that these activities may be delegated to federal societies¹.

However, this would not solve the dry goods problem, since the dry goods trade even of a society with 20 grocery branches is still infinitesimal as compared with the normal multiple scale of operations. In some sections of the dry goods trade, notably specialist shop trade in clothing and footwear, the efficient scale of operations is, in our view, larger than could ever be achieved by local societies, however ruthless the process of amalgamation; what is required here is a national scale of operations. We therefore leave these cases for discussion in the next chapter.

But there are still important sections of the dry goods trade which are susceptible to efficient local operation (given, perhaps, some regional co-ordination of buying). This is notably true of department store trading, where indeed the scale of Co-operative trading is already as large as the average of the private sector.

¹v. next section.

For 1955 the Co-operative Union *Census of Shops* gave a figure of 260 Co-operative department stores, responsible for an estimated 40% of Co-operative dry goods trade¹. These were operated by 136 societies; and 43 societies operated 167 out of the total. It is not easy to make exact comparisons of scale with private trade in this field. But it would appear that in 1950, out of a total of 360 private department stores, 31% were operated by firms which controlled five or more stores; the corresponding Co-operative figure in 1955 was 36%. Certainly Co-operative stores are on the average smaller. But there is evidently no marked difference in scale of operations as judged by the number of stores per organisation.

The problem here is that the societies with department stores are too small, not as judged by the number of their stores, but as judged by the geographical area which they cover. That is, they do not embrace the whole of the catchment-area from which the dry goods trade of the shopping centre is drawn; and this has the consequent disadvantages mentioned in a previous section. An efficient department store structure—and the same is true of some other dry goods trades—requires ideally that there should be only one society to each main shopping centre and its catchment-area.

To achieve such a position should therefore be the second object and criterion of an amalgamation policy. Naturally this raises the problem of defining what is a shopping centre and what a catchment-area. This is especially difficult in the case of large cities which attract dry goods trade from a surrounding area which itself includes a number of important though subsidiary shopping centres. Similarly it is not always easy, with the existence of suburban shopping centres, to divide the large cities themselves into neat and clear-cut market areas. An element of arbitrariness is inevitable when the pattern of trade flow is so complex.

If we accept this, however, and admit that no set of boundaries can ever be perfectly logical, we can find a solution which will at least be much superior to the present chaotic pattern of boundaries. There were in 1950 180 local government areas which transacted a trade per head of population above the national average; that is, they could be assumed to be attracting dry goods trade from other areas, and

¹On a stricter definition, the 1950 *Census of Distribution* noted 176 Co-operative department and variety chain stores, responsible for 36.5% of Co-operative dry goods sales.

hence to constitute important shopping centres. If each of these centres, with its catchment-area, were to come under the control of a single society, and if we allow for some isolated societies which can scarcely be said to form part of a larger market area, we arrive at an "ideal" number of societies of (say) 200-300.

Lastly, we revert to the argument of section I., where we drew attention to the waste of resources which often followed from the presence of several societies in close proximity to each other. Much of this waste would of course be eliminated automatically by the application of the two criteria already mentioned.

But some would still remain; for the duplication of capital is often most marked amongst medium or large societies operating cheek by jowl in a single conurbation which perhaps includes more than one shopping centre. We do not suggest that London should necessarily have only one society in order to eliminate duplication; for here the question of diseconomies of scale might well prove relevant. But we have certainly formed the impression that in almost every other large town or city which is now served by more than one society, the waste of resources and the lack of overall planning are atrocious, and should at once be reduced by a measure of amalgamation.

It should therefore be clear that we are not concerned to establish a single "optimum" size for all societies; nor are we animated simply by a megalomaniac desire to see small societies swallowed up by large ones. There may be some small societies in isolated country areas which can amble along quite satisfactorily as they are to-day. There are medium-sized societies in country towns which have rational boundaries and little duplication of capital. On the other hand there are relatively large societies in big cities which would gain significantly from a co-ordination of their activities. Above a minimum size, the "optimum" size can be judged only in relation to the market.

For this reason we are also opposed to the idea of District or County societies, or indeed to any approach which is based on artificial boundaries. Such boundaries bear no necessary relation either to the movement of trade or the size of the market; and they therefore cannot form the basis of a rational structure of societies.

Our criteria are threefold. First, the aim should be to bring societies, other than very isolated ones, up to the size at which they are operating a chain of at least (say) 15 grocery shops. Secondly,

there should be one society to each main shopping centre and catchment-area. Thirdly, societies should amalgamate wherever duplication of resources, both human and material, is now creating manifest waste and inefficiency.¹

Naturally these criteria will not marry in each individual case; and there is no rule-of-thumb for deciding which should have precedence when they do not. Commonsense must be the governing factor. But the general approach should be first to accept the principle of a minimum operating unit of (say) 15 grocery shops, and thereafter to proceed on local and geographical considerations, notably the flow of trade and the size of the market, and the need for concentration and specialisation of Co-operative resources. On this basis, in the light of the detailed arguments used above, we might roughly set the "ideal" number of societies, at the present stage of retail development, at between 200 and 300.

But would the resultant increase in the average size of society conflict with the principle of Co-operative democracy? We made it clear above that in our view a single national society, even assuming (which we did not) that an economic case for it could be made out, would probably be found incompatible with the social principles of Co-operation. Does the same apply to our proposal to reduce the number of societies to (say) 250?

We think that it does not. The principle of the sovereign local unit would be fully preserved, even though the units would now be on the average larger. The reality of democratic control need in no way be lost, as indeed is clear from the experience of existing societies which are already of this size. It is true that the figures of member-participation appear to decline as size increases; but we do not hold this to be a sufficient objection for the following reasons.

First, the difference between the average figures for smaller and those for larger societies is only slight; and moreover the correspondence is far from being exact—there are many large societies with relatively high figures and small societies with relatively low ones. Too much stress should therefore not be laid on the single factor of size.

¹One obvious way in which this criterion might be applied would be to base proposals for amalgamation on the area over which distribution to surrounding shops can be most economically carried out from a single central warehouse.

Secondly, if a conflict does in fact arise between participation and efficiency, it can perhaps be resolved by action to increase participation. Thus in the case of amalgamation, the right answer is not to sacrifice efficiency by rejecting amalgamation, but to accompany amalgamation by an intensified effort to maintain or increase member-interest. The methods by which this might be done fall outside our terms of reference, lying rather within the sphere of Co-operative education. But we would stress that to oppose policies on the grounds of member-apathy is sometimes to show an unduly defeatist attitude to the possibilities of education.

Thirdly, if the matter cannot be resolved in this way, and a choice has to be made, it should not *automatically* be made in favour of participation and against efficiency—especially since, as we argued in Chapter 2, a low participation need not mean that democratic control is lost. The active participation of the membership is of course an essential Co-operative principle. But so is, or should be, the duty of a Co-operative society to conduct its affairs in the interests of its members ; that is, with the greatest possible trading efficiency. There is a tendency to forget that this duty forms, or should form, a central part of Co-operative ideology. A Co-operative society is established by its members, and provided with capital, in order to give them a better service than they can obtain from private enterprise. It will certainly not do so unless it places trading efficiency, as well as member-participation, high on its list of priorities.

But we do not in fact believe that a choice requires to be made in this case. Amalgamation on the scale which we suggest would give an average size of society no larger than that of many present-day societies which not only enjoy an unusually high degree of member-participation, but are fully democratic, notable for their loyalty to the Movement, and outstanding in the field of Co-operative education. We regard this as conclusive. Naturally the increase in size will (or should) entail a change in the role of the Board along the lines suggested by us in the last chapter ; but this we regard as both desirable in any event, and wholly consistent with the democratic principle. We therefore have no hesitation in recommending that the Movement should set itself a target of 200-300 retail societies.

IV. THE PROSPECTS FOR CO-ORDINATION

But it may be said : cannot these advantages of larger scale and co-ordinated planning be achieved without amalgamation, simply by

voluntary co-operation between societies ? We have so far rather begged this question, mentioning co-ordination in passing, but in fact assuming that it could never be more than a palliative. But some Co-operators believe that it can ; and a number of attempts in this direction have of course been made.

It has long been recognised, for example, that one consequence of the existence of separate local societies was that the Co-operative member shopping outside her own area had no special inducement, other than general Co-operative loyalty, to patronise the shops of another society. Thus either Co-operative trade was lost ; or the Co-operator was denied a dividend on her purchase in a Co-operative shop. It was to meet this situation that the National Membership Scheme was introduced, under which the member of any (participating) society can obtain dividend at the shops of any other (participating) society.

We support this scheme ; and we are not impressed by the reasons given for non-participation by those societies which decline to join. We are not convinced by the stories of prohibitive administrative costs, nor by the fears on the part of high-dividend societies of a possible financial loss due to differences in dividend rates ; we find both these to be contradicted by the figures and by the experience of societies which do participate. Nor are we in sympathy with the anxieties of some small societies lest they should lose trade under the Scheme, inasmuch as their members will then be more prone to shop with larger neighbouring societies ; if these fears are justified, they amount to an admission that the societies concerned are not providing a full or competitive service to their members.

We also have an uneasy suspicion that the reason why some (especially seaside) societies decline to join is that they are subsidising their own dividend out of the non-dividend trade which they do with visiting holiday-makers from other societies. If this motive exists, we regard it as scarcely consistent with the ideals of Co-operation.

We have only two recommendations on this subject. First, societies should give more publicity to both the existence and the mode of operation of the Scheme ; secondly, the Co-operative Union should make further efforts, through the machinery of Sectional Boards and District Councils, to persuade the minority of societies still outside to adhere to it.

Inter-trading arrangements have the same broad object as the National Membership Scheme, although in this case attention is usually fastened not on the casual purchase of the traveller or the holiday-maker, but on the steady flow of dry goods trade from outlying areas into an urban shopping centre. We support the principle of inter-trading. We have, moreover, been disturbed to find that societies sometimes oppose inter-trading either from a fear lest they may lose trade to the urban society, or because they already have a discount arrangement with a private trader. Both these reasons are, in our view, to be deplored.

Nevertheless we have come to the conclusion that inter-trading is a poor substitute for full amalgamation. All its advantages, and many more besides, could be achieved by amalgamation, without the tiresome complications of chits, vouchers, and intricate financial arrangements between separate societies. We should, therefore, not advise too heavy a concentration of time and effort on inter-trading. Amalgamation should normally be given the first priority; only if it appears to have no chance of success, or if for some local reason it is quite inapplicable, or during the interim period while it is being negotiated, should inter-trading be treated as an important objective.

It is evident that neither national membership nor inter-trading, useful though they may be, really scratch the surface of the structural problems discussed in the last three sections. Federal action, on the other hand, makes a more fundamental contribution. Its significance arises from the fact, to which we have already drawn attention, that different forms of retail activity have a different "optimum" scale of operation, and therefore require a different size of business unit. A society may have a turnover which justifies a full range of grocery services, but would still not justify (say) a bakery or a dairy of economic size. If, however, several societies co-operate to establish a federal organisation, their combined turnover will justify a plant on the necessary scale.

We regard the federal type of organisation as being particularly suitable for many processing activities and services; and we have been encouraged by the progress made in recent years. Nor do we think that the potential benefits have yet been fully exploited. There still appears to be scope for further rationalisation of the Co-operative bakery trade, and to a lesser extent the milk trade: for development in the sphere of confectionery baking: and perhaps for a technical examination of the possibilities of federal slaughterhouses and

"making-up" factories. The question of federal delivery-systems (e.g., for bread and milk) may well become urgent in the near future. It has also been suggested that central accountancy and the installation of electronic computers might be a suitable field for federal action. These are all technical questions on which we would not wish to pronounce dogmatically; but they seem to us worthy of expert consideration by the Trade Associations in conjunction with the Wholesales.

But we do not believe that local federal action can ever be a major part of the solution to the Co-operative retail problem. It is not obvious, for example, that it provides an answer to the over-riding question of Co-operative dry goods trade. In exceptional cases it may be the most practical method of establishing a central department store in a large metropolis. But this is not the typical dry goods problem; and especially in clothing and footwear we have not been able to envisage local federations as being the right solution.

Nor could they ever, in practice, eliminate all the waste and duplication described in section I. No doubt they could do so if they extended not only to bakeries and dairies, but also to the buying function, transport, warehouses, head offices, stocks, the allocation of new shop sites—if, in other words, most of the major activities of local societies were handed over to new and larger bodies. But this of course is precisely what would occur under amalgamation. Federal action could thus remedy the retail problem only if it went to the point where the participating societies virtually ceased to exist as separate units; in that case, it would be not a substitute for, but identical with, amalgamation.

The last obvious form of voluntary co-operation between societies consists of what is known as "co-ordinated buying," that is, the formation of panels and regional buying groups. In a later chapter we discuss the whole question of co-ordinated demand in detail. Here we need only anticipate our conclusions to the extent of saying that we do not regard panels and groups, useful as their work has been, as other than a palliative. They are, in our view, no substitute for more fundamental changes.

To sum up, therefore, we think that these various forms of co-operation between societies have a useful role to play. But it is at best a minor role, apart from some types of federal action. There is nothing here which removes the need for large-scale amalgamation.

V. THE NEED FOR A NEW INITIATIVE

Every year sees a small reduction in the number of societies as a result of amalgamation or transfers of engagements. It may therefore be said : even assuming a further large reduction to be desirable, why not allow this steady progress to continue, and permit the passage of time to solve the problem painlessly ? The answer is that the Movement may not be vouchsafed the required amount of time by its competitors. At the rate of progress of the last five years, we should be well into the 21st Century before the number of societies was reduced to 250. Progress in the private trade may not be quite so leisurely.

We therefore recommend that the Co-operative Union should take an explicit new initiative in the matter. It has, we know, taken many in the past, with only mixed success. But we believe that the moment is now propitious for a new and perhaps more ambitious venture. There may be an exceptional readiness in the Movement, even though it lies partly beneath the surface, to accept radical proposals ; and parochial walls might crumble more quickly than a pessimist, looking only at the outer surface, would suppose.

Moreover, the announcement of a new initiative, and the publicity attending it, might itself create a favourable psychological atmosphere. It would focus attention on the issue, give wide publicity to the arguments in favour of amalgamation, and generate a new dynamic behind the whole campaign for closer union. In this way it would hearten the supporters and dismay the opponents of Co-operative unity. Certainly some new initiative appears to be needed. In some areas (though by no means all) the position is one of frozen immobility, nothing having moved for years or even decades. Although, therefore, we are well aware that action from the centre sometimes arouses a hostile reaction locally, we have concluded that the risk must be taken if the existing deadlock is to be broken.

We spoke of the new initiative being more ambitious than some previous ones. We are convinced that it must be. Little will be achieved by a vague permissive resolution at Congress, laying once again an ambiguous and voluntary onus on Sectional Boards and District Councils to foster closer union. The convention must be broken, moreover, by which, with occasional exceptions, Sectional Boards confine their approaches to societies in grave financial difficulties. The argument for amalgamation goes far beyond the

case of the bankrupt small society. There are many apparently prosperous medium and large societies, especially in urban areas, which should amalgamate ; yet we have often found that such societies have never, or at least not for a decade or more, been approached either by the Sectional Board or by a neighbour, or presented with a definite proposal to consider. And in many areas it might be futile, such are the local tensions, for neighbouring societies to approach each other even if they were so willing ; the initiative must come from outside.

Moreover such approaches as are made to-day are often couched in the most general terms, consisting of an admonition to the local Board that it should look carefully to its results, and that it might care to consider the possibility, amongst others, of amalgamation with a neighbour. It is always easier to reject general advice than a detailed proposal which makes obvious economic sense and answers all the questions in advance.

We therefore recommend that Congress be invited to authorise the Central Executive to initiate a survey designed to lead to definite proposals for amalgamation. This survey should be economic and geographical in character ; it should not be based on Co-operative Union Districts, but on the flow of trade. It should employ the criteria discussed in previous sections, and not, as most previous surveys have done, statistics of trade per member, dividend, financial results, and so on ; figures such as these do not necessarily point to correct conclusions about the right size of unit. Often a comparatively simple study of local conditions and shopping habits would throw up the right answers ; but occasionally a more elaborate market-research survey might be needed.

Partly for this reason, the survey should not be carried out under the aegis of Sectional Boards, but by an enlarged Co-operative Union Research and Statistical Department¹. Sectional Boards and District Councils are already fully occupied with their existing work ; they do not command sufficient full-time resources for a task of this nature ; and, if we are to be frank, they are not in any case the ideal bodies to supervise an amalgamation survey since they often contain interested parties amongst their members.

The survey must therefore be initiated centrally by the Union ; though the experts carrying it out would work, as they visited each

¹v. Chapter 8, section I.

region, in the most intimate informal collaboration with the Sectional and District Secretaries¹. It should be geographically comprehensive, that is, it should cover the whole country including the areas of societies which declined to collaborate; although in time it would of course be carried out piecemeal, starting with the most urgent areas. And it should lead to specific plans for larger or different units, backed by hard-headed economic arguments setting out the advantages in detail. Although some societies might not be convinced even then, so parochial is their outlook, there are others which perhaps have never heard the arguments for amalgamation spelt out in detail, and which genuinely need to be convinced. The survey would provide them for the first time with an authoritative presentation of the case.

VI. THE CONTENTS OF AMALGAMATION SCHEMES

The economic survey would recommend that particular societies in particular areas should be united to form more advantageous units. It will then be the task of the Union to translate these recommendations into actual schemes of amalgamation which pay due account to all the local interests affected.

We should not presume to suggest in detail how the Union and Congress might carry out this task. But in broad outline we would envisage a procedure somewhat as follows. The results of the survey would be presented to the Central Executive, which, acting under the original Congress resolution, would then lay on Sectional Boards the explicit responsibility of preparing schemes for their implementation. The Sectional Boards would thus accept a fuller responsibility than hitherto. They already commonly approach societies with general advice about amalgamation. But we now envisage a more detailed initiative, somewhat on the lines, though going even further, of that recently taken in the Huddersfield District. The Sectional Boards would draw up at least the outline of *actual schemes* for amalgamation, and would present these, sometimes no doubt in the form of alternatives, to the societies concerned. Such an action would, in our view, in no way breach the principle of local sovereignty. The final decision will remain firmly in the hands of the local society; the only change from present practice would be that the advice of Sectional Boards, instead of being couched in general terms as it often is to-day, would be concrete and specific.

¹A precedent may be found in the 1938 Surveys, which were carried out in broadly this manner.

Any amalgamation proposal must pay scrupulous regard to the legitimate interests of those affected by it. We are not in favour of Sectional Boards, still less large societies, suggesting unconditional surrender, and making no provision for guarantees or for personal security. In the Co-operative Movement, the rights of all those concerned should be jealously protected. We do not believe that it is possible to propound one single solution of universal application; but the following general principles should be taken into account in the preparation of the schemes.

First, the interests of the employees must be fully safeguarded. Guarantees to this end are a normal feature of most amalgamation schemes; and we attach great importance to them. Amalgamation may often bring with it a danger of disturbance—the risk, for example, of having to travel further to work. Nevertheless, provided that adequate guarantees are given, we would urge the Trade Unions and the employees to give strong support to amalgamation proposals, from which they will almost invariably stand to benefit. In a larger unit, wage earnings are likely to be higher, conditions of work superior, facilities for training more generous, and prospects of promotion more ample. We find it hard to imagine a situation in which the interests of the employees will not, on balance, be advanced by closer union.

Secondly, the natural anxieties of the top officials must be set at rest. They must not only be guaranteed employment and their existing income for a specified period of time. It is also for consideration, in cases where loss of status is involved, whether it would not be right to compensate for this by a special lump-sum payment or, in the case of older officials, the provision of a pension.

Thirdly, it is natural that members of Boards should be reluctant to be deprived by amalgamation of the opportunity for continued service on their Board. Much attention has recently been given to the practice of one well-known West country society which, when another society transfers its engagements to it, retains the latter's Board as a District Committee. We think this practice has, in principle, much to commend it.

It may not, however, be equally applicable everywhere. There are, for example, cases where a number of societies with ill-defined boundaries jostle each other in a single, confined urban area. In such cases the total number of Board members may be too great to be

accommodated within any workable framework of District Committees ; moreover, the areas of the separate societies may not represent definable "districts" at all. Here a compromise might be possible ; and the existing Boards might be kept in being as District Committees for a limited period of (say) five years, during which time vacancies would not be filled.

Fourthly, quite apart from the question of the existing Boards, it may often be desirable to retain the element of local identity and local loyalty. This might be achieved either by having regional representation on the Board of the united society, or (perhaps more commonly) by so framing its rules that the separate societies, instead of losing their names altogether, become the "X" or "Y" Division of the new society. Again, neither of these proposals is universally feasible, especially in urban areas ; but both are worth the consideration of those responsible for framing schemes.

Lastly, the members themselves. We deliberately place them last, since we do not regard their interests, in the vast majority of cases, as being in any way jeopardised by amalgamation. So far from needing safeguards, they stand only to gain from the greater efficiency, the better service, and the lower prices, which the larger unit should generate.

The only exception to this is where, because of variations in dividend amongst the societies which it is proposed should amalgamate, the members of one society are faced with a possible reduction in dividend. This is not a common case—normally the prospects are for at least an unchanged and often a higher dividend ; and it is likely to become still less common with the continuing tendency towards a nationally more uniform level of dividend. Where it does occur, moreover, the members of the society concerned should assure themselves that their high dividend is not simply the result of higher prices ; and, even where it is not, they should bear in mind that a larger and more economic unit may well be better placed to withstand any downward pressure on dividend in future years.

But in any event such cases are exceptional ; normally the ordinary member has everything to gain from amalgamation. The difficulty usually is not to *persuade* him, but to *reach* him in order to point out the advantages. We suspect that amalgamation is often rejected by Boards of Directors without the membership having been properly

consulted. This is both unjust and undemocratic ; it is the members, and not the Board or officials, who should be the final arbiters.

We therefore suggest that where a Board opposes an amalgamation proposal submitted to it by the Sectional Board, it should nevertheless leave the final decision to a members' meeting at which both sides of the case would be presented. Just as the society's Board will take such measures as it wishes to enlist the support of the members, so should the Sectional Board. The latter should prepare a summary of the proposal in leaflet form ; and the society's Board should allow this to be disseminated freely amongst its members. When the members' meeting is held, and the local Board explains its opposition, it should allow an equal opportunity for a representative (not necessarily a member) of the Sectional Board to attend and support the proposal. This would be in no way a derogation of local sovereignty. On the contrary, it would make that sovereignty more real by ensuring that the members hear both points of view and are put in a position to take an informed decision.

It will be seen that our proposals for a national amalgamation survey and plan represent, not a break with existing procedure, but a radical extension and development of that procedure. They would place upon the Co-operative Union and Sectional Boards (whose full-time staffs might well need to be augmented for the purpose) a more detailed responsibility than they accept to-day : a responsibility not confined to the "crisis" cases, but covering all situations where Co-operative strength would be increased by amalgamation, and a responsibility for presenting not general advice alone, but also concrete proposals.

The responsibility should, moreover, be a continuing one. We suggest that Sectional Boards should prepare annual reports to Congress recounting the progress made in each district, and in particular listing those societies which have rejected closer union.

One proposal, however, we reject categorically : namely, that sanctions or penalties should be imposed on societies which decline to amalgamate. We have heard it suggested, for example, that such societies should be expelled from the Co-operative Union, or refused credit facilities by the Wholesale Societies ; or that boundary agreements should be abrogated, and more powerful neighbours encouraged to invade their territory. Certainly we take the view that many boundary agreements, in the light of movements of population, now act in a

haphazardly up and down the country. Such a collection of oddly-assorted Branches would hardly be an ideal starting-point. If the Movement were ever to embrace the idea of a national society, it would have to allow it to select the most favourable ground for its starting-point, and not burden it with an inherited patchwork quilt of miscellaneous units.

We would therefore oppose any suggestion that these bodies should be deliberately expanded in the direction of becoming all-embracing national retail organisations ; and since our opposition is firmly enough based on technical and economic considerations, we do not feel called upon to consider what further objections might be made to the idea on social or democratic grounds.

In our view, the functions of these organisations should continue to be broadly what they are to-day : to provide retail services in areas covered by no local society, to act as a defence of last resort for societies in grave financial difficulties, and in addition to play the role described above in the amalgamation plan.

Chapter 7

THE CASE FOR NATIONAL CHAINS

Given an intensive programme of amalgamation and a development of federal action, the retail Movement should be adequately equipped, so far as size of organisation is concerned, to meet most problems in the food trades and even in some sectors of the dry goods trade.

But it will still not be sufficiently equipped to meet competition in the most important sectors of the dry goods trade ; for here the local society by itself does not constitute an economic trading unit. That this is so might indeed be inferred from the Movement's continued failure, described in Chapter 1, to capture the same, or even nearly the same, proportion of the national dry goods trade as it has captured of the national food trade.

The basic reasons for this failure, in our view, are on the one hand that the economies of a multiple scale of operation are even more marked in most dry goods than in most food trades, and on the other hand that local Co-operative societies are in practice much less likely to achieve them.

These economies are most conspicuous on the buying side. Large-scale bulked orders, by facilitating longer production runs, make possible a significant reduction in costs to both retailer and manufacturer ; and they also generate secondary economies in respect of warehousing, stock-holding and transport. In many dry goods lines, moreover, successful buying requires, in addition to large orders, a high degree of specialised skill ; and this will not be forthcoming unless the turnover is large enough to justify the employment of highly-qualified (and highly-paid) specialist buyers for each major section of the trade. There are also important economies on the selling side, where a large organisation can, through the employment of specialist personnel and the organisation of central training facilities, enforce both a higher and a more uniform standard of window display, lay-out, shop-fittings and presentation.

The relatively greater importance of these economies on the dry goods than on the food side is confirmed by the fact that multiple shop organisations have made more rapid progress in dry goods than in food. Between 1935 and 1955, they increased their share of trade

in food and household stores from 14% to 17%, but in women's and children's wear from 10% to 26%, men's and boys' wear from 21% to 31%, footwear from 41% to 50%, household durables from 14% to 21%, and chemists' goods from 30% to 38%¹.

Meanwhile the Co-operative share in these trades has scarcely moved. It is difficult not to attribute this contrast to the disparity in the scale of operations. There are virtually no retail societies large enough to generate the economies of multiple organisation in dry goods. In food, the larger societies, controlling a number of grocery shops which may range from 15 to 400, and the larger federal societies, with their modern bakery or milk plants, enjoy the same advantages of scale as most of their multiple competitors; they are, indeed, multiple shop organisations themselves. But the society with 100 grocery shops will seldom have even 10 footwear or men's clothing or furniture outlets; and this is not a large enough number to afford the economies of multiple operation. This is of course demonstrated by the need for continuous efforts to bulk and co-ordinate retail societies' dry goods buying.

The relatively small scale of the Movement's dry goods retailing is strikingly evident from the figures given in Table 15. We have taken only retail societies or multiple firms operating 10 or more branches in the trade concerned; and we have compared the number of specialist shops in the drapery, footwear, men's wear, furniture and chemists' trades.

It will be seen that only in three instances does a Co-operative society operate a chain of more than 25 shops in any of these trades, and in only 71 instances a chain of more than 10 shops.

The multiple shop organisations, on the other hand, are heavily biased towards chains of over 50 shops, and to a lesser extent towards chains of between 25 and 50 shops. Excluding chemists' shops (for which the particular figure is not available for the multiple organisations), there are over 11,000 multiple shops in these trades operated by organisations with over 50 branches in that trade; there is not a single Co-operative shop operated by a society with over 50 branches. Including chemists' shops, there are over 15,000 multiple shops operated by organisations with over 25 branches; the corresponding Co-operative figure is 205.

¹v. Chapter 1, Table 5.

TABLE 15. Comparison of Scale of Operations of Co-operative Societies (1955) and Multiple Shop Organisations (1950) in Various Non-Food Trades.

	Organisations with	Co-operative Societies			Multiple Shop Organisations	
		Number of Societies	Number of Branches	Per cent	Number of Branches	Per cent
<i>Drapery, Women's outerwear, Outfitters, &c.</i>	10-24 branches	27	360	91	928	34
	25-49 "	1	34	9	435	16
	50 or more branches	—	—	0	1,365	50
	Total	28	394	100	2,728	100
<i>Footwear</i>	10-24 branches	11	170	100	613	11
	25-49 "	—	—	0	547	10
	50-99 "	—	—	0	983	18
	100 or more branches	—	—	0	3,285	61
	Total	11	170	100	5,428	100
<i>Men's Wear</i>	10-24 branches	5	88	100	591	17
	25-49 "	—	—	0	504	15
	50-99 "	—	—	0	359	11
	100 or more branches	—	—	0	1,939	57
	Total	5	88	100	3,393	100
<i>Furnishing and Hardware</i>	10-24 branches	5	71	67	572	13
	25-49 "	1	35	33	478	11
	50-99 "	—	—	0	1,245	29
	100 or more branches	—	—	0	2,000	47
	Total	6	106	100	4,295	100
<i>Chemists including Drugs and Optical</i>	10-24 branches	20	300	69	287	11
	25 or more branches	1	136	31	2,283	89
	Total	21	436	100	2,570	100

SOURCES: *Census of Distribution, 1950, Vol. II*, and Co-operative Union Statistics.

The contrast is of course even more marked if we include the Co-operative societies with fewer than 10 branches in any of these trades. The figures can be set out as follows: in 1955 in *drapery* there were 757 societies operating 1,712 shops, or an average of 2.3 per society; in *footwear* there were 447 societies operating 764 shops, or an average of 1.7 per society;

in *men's wear* there were 339 societies operating 557 shops, or an average of 1·2 per society;

in *furnishing & hardware* there were 542 societies operating 1,037 shops, or an average of 2 per society;

in *chemists' goods* there were 349 societies operating 761 shops, or an average of 2 per society.

This gap in average scale is manifestly too wide to be closed by the separate expansion of individual local societies. Even if the number of societies is reduced, as we propose, to 200-300, the dry goods turnover of the vast majority will still not support, or come within sight of supporting, chains of 50 or 100 shops in individual trades. Chains of this size would require, if not a national, at least a regional market to support them; and no local society (except perhaps for a rare metropolitan one) can ever, given the existence of boundary agreements, attain to such a market. Any Co-operative chain of more than (say) 20 shops would therefore require to be a national or regional chain, which was not restricted to a single society's area.

We are also influenced by a further consideration. Whilst the majority of medium and large societies have sufficient capital for the required expansion in food and groceries, a serious attempt to reach the requisite number of Co-operative dry goods outlets would strain many societies' finances severely. Indeed this strain is already apparent in a number of towns where medium-sized societies are bravely attempting to develop their dry goods trade in a main shopping centre. If, however, national organisations existed to which certain dry goods responsibilities could be delegated, the strain would be greatly reduced; and much-needed capital (and managerial energy) would be released for expansion in other directions.

We have therefore decided that a clear case exists for the creation of national specialist bodies to develop particular sections of the Co-operative dry goods trade on multiple-shop lines. We do not wish to lay down exactly which trades should be selected in what order; but we offer some general observations on the criteria which ought to determine the first selections.

These criteria should be as follows. First, the trade should be one in which the Co-operative share of national sales is conspicuously

lower than the Co-operative share of retail trade as a whole. Secondly, it should be one in which experience at home and abroad has demonstrated that multi-shop organisation is an essential condition of success. Thirdly, it should be one in which clear advantages are to be derived from the establishment of close links between retailer, wholesaler and producer. But, fourthly, it should not constitute so large a part of retail societies' turnover that the operation of a national chain would destroy the basis of local society profitability. The third of these, especially, is not a necessary condition, although in a few cases all four may be fulfilled.

These criteria have some application even to the food trades. The third, for example, is increasingly relevant to the flour, bread and confectionery trade; and in the development of federal bakeries the Movement should always aim at the maximum degree of common policy-making all the way from flour-milling to bread-delivery.

But their main application is in the dry goods field. They do not, of course, apply universally even here. We are not, for instance, convinced that there is a sufficient case for following the example of some continental Movements and establishing a national chain of department stores. Not only would this flout the fourth criterion, but the Movement shows little sign of falling behind in this field, either in respect of the total number of its stores or the average scale of operation. Nor is it clear that the arguments for multiple organisation are decisive in such trades as hardware, wallpaper and paint, crockery, leather and fancy goods, and jewellery.

They are strongest in the footwear, clothing and chemists' trades. In footwear, the Co-operative share of national trade has fallen in the last six years from 9% to 7½%; in men's clothing the Movement handles only 6% of the national trade; it has conspicuously failed in women's fashions; and its share of chemists' trade appears to have stabilised at some 8%. In all these trades the advantages of multiple shop organisation are conclusively proved. In some sections of them there are clear advantages to be derived from a particularly close link with the producer. Lastly, there are many societies which are now doing so thin a trickle of trade in these commodities that their financial results would not be affected by the operations of a national Co-operative chain; that is, the chain would develop entirely new Co-operative trade, and not merely attract existing trade from local societies. It is therefore in these trades that the first experiments

should be conducted¹, mainly in the form of specialist shops²; though, looking ahead to the future, furniture (where multiple organisations are now expanding rapidly) and even radio and electrical goods may soon be additional candidates for chain experiments.

We now consider, in broad outline, how a new national organisation might acquire a chain of (say) footwear shops. The most obvious method would be for societies to hand over their existing footwear shops or the footwear sections of their department stores³. It is sometimes said that this will not occur; or if it does, that only unprofitable shops in poor locations will be transferred, so that the new organisation will start with a ragged collection of "lame duck" outlets. We think this to be too pessimistic. We have found a number of societies in important shopping centres which would be willing to transfer particular dry goods outlets, not because they are unprofitable, but either because they wish to release their own resources and energy for development elsewhere, or because they genuinely believe that national operation would better serve the interests of the Movement.

In the long run, the extent to which societies are willing to surrender shops will depend mainly on the success and efficiency of the new organisation; if it demonstrates a clear superiority in respect of price, quality, lay-out and presentation, we believe that offers of shops will be on a perfectly adequate scale. But it will also, of course, depend on the financial arrangements to be made between the chain and the local society. These might follow the pattern which already operates in, for example, National Co-operative Chemists. Or the chain might pay the society, in addition to a rent for the shop, a

¹Or developed. The nucleus of a national chain, although not one organised precisely on the lines which we have in mind, already exists in the chemists' trade.

²It is not to be inferred from the mention of specialist shops that we suppose the future of dry goods retailing to lie entirely, or even mainly, with this type of outlet. In certain fields American experience suggests a trend towards "one-stop shopping," for many dry goods as well as for food; and here the future may lie both with the department store and (perhaps even more) with the suburban supermarket embracing a steadily-growing range of dry goods. The case for specialist chains, strong as it is, is a selective one; though of course this trend would not weaken the case for a chain of variety bazaars.

³We assume that the Wholesale Societies, where they already operate specialist shops in the trade concerned, will transfer these to the new organisation.

discount on all trade equal to the society's current rate of dividend. A profit would then accrue to the society from non-member trade; and this, since in fashion and semi-fashion goods dividend is a less important attraction than range and presentation, might not be inconsiderable. Naturally there are complications (for example, as to how to divide this profit where the non-member trade is drawn from the area of more than one society). But they have been satisfactorily solved in a number of continental Movements. Given good will on both sides, it is certainly feasible to find a solution which, while allowing the local society a small profit, does not place an intolerable burden on the finances of the chain.

But more important than the transfer of existing shops is the establishment of new ones; for a prime object of the experiment is to increase the number of Co-operative dry goods outlets. Here there are two extreme possibilities. On the one hand, the chain might be given complete freedom to open shops wherever it wished, with or without the consent of the local society; on the other hand, the local society could be given a complete power of veto over the decision to open a shop in its area.

Neither of these extremes commends itself to us. We do not think that national bodies should over-ride, without right of appeal or redress, the views of local societies on matters which may affect their trading results. Nor, on the other hand, do we think that a society which is manifestly failing to give a proper service to its members—and this must be the position if the national chain perceives a profitable trade potential in that area—should be allowed a permanent monopoly of Co-operative trade in its area. Failure to give service reflects not only on the local society, but on the whole Movement; and the elected national bodies of the Movement must accept some ultimate responsibility.

We therefore recommend the following procedure. The national chain will notify the local society that it proposes to establish a shop in its area. If the local society raises no objection, a financial agreement will then be made on the lines proposed above; and matters will proceed. If the local society objects, it shall have a right of appeal to the new Co-operative Retail Development Society which we recommend in the next chapter, on which all sections of the Movement will be represented. The only grounds for appeal would be that the full Co-operative trade potential in that commodity was

already being exploited by the local society, that no scope existed for further expansion, and that the chain shop could therefore only take trade away from the local society. If the national chain could not refute this suggestion, the appeal would be upheld ; if, on the other hand, it could demonstrate, either on the basis of market research or by showing that other societies in similar areas had a higher proportion of the local trade than the society concerned, that new Co-operative trade could be won, then the appeal would be rejected.

This again draws attention to the fact that the sole object of establishing a national chain is to *increase* total Co-operative trade, not merely to transfer existing trade. If the chains do their job, local societies should have no grounds whatever for complaint.

We would not in fact expect this appeals machinery to be much needed. A growing number of societies have recently invited or encouraged the national federations to establish specialist shops in their area ; and the most prominent existing chain, the National Co-operative Chemists, is now, after a somewhat uncertain start, opening new branches at a much more rapid pace. If the chains can convince the Movement that they have enterprise, drive and efficiency, in addition to the advantages of larger scale, we have little fear that they will lack for outlets.

The only circumstance which could destroy the experiment, and indeed prevent its even getting under way, would be if societies obdurately refused to countenance any scheme which breached their own monopoly of local Co-operative trade, even though the interests of their members and total Co-operative turnover stood equally to benefit. We can only hope that the Movement will not again, as it has occasionally done in the past, sacrifice both its ideals and its trading progress to such irrational and parochial prejudice.

We do not propose to discuss what detailed trading and organisational policies the chains, once established, should pursue ; for these will naturally vary with the commodity or trade. Thus in one case, for example, it might be desirable to integrate the chain into a single organisation including also the Co-operative factories producing that commodity ; more normally it would be sufficient to establish a central buying organisation to act in concert with the existing Wholesale buyers. All such questions must be determined by the organisation itself in the light of its two essential objectives :

first, to expand the number of outlets, and secondly to exploit all the advantages of multi-shop organisation¹.

But we must consider the control of, and supply of capital to, the new organisations. Two groups need to be represented on their policy-making Boards. First, those societies which have handed over shops or co-operated in the establishment of new shops in their areas ; thus will local interests be safeguarded. Secondly, a central retail development body, which we provisionally call the Co-operative Retail Development Society, and the need for which and the functions of which are described in detail in the next chapter.

We propose that in each case a national federal body should be established, and that these two groups should each take up one-half of the voting shares and appoint one-half of the Board of Directors. This would raise no problem so far as the Development Society was concerned. In the case of the participating retail societies, arrangements would need to be made both for a simple system of electing Directors, and for an adjustment of the structure of share-capital as more and more societies came into membership. This would present no great difficulty ; similar problems have already been solved, though in a different context, in the constitution of such bodies as C.R.S. and National Co-operative Chemists.

The Board of Directors would be part-time, meeting either monthly or quarterly. Its duties would be to appoint a full-time Chief Executive Officer, to sanction major policy decisions, and to scrutinise regular reports from the full-time officials. The Chief Executive Officer should preferably, though not necessarily, be chosen from the retail societies, since this is essentially a retail operation.

We envisage that the initial capital would come not from the voting shares mentioned above, which would be nominal in value, but from loans and mortgages negotiated direct with the national federations according to the principles laid down in Chapter 10. In fact, capital requirements may be considerably below some figures which we have seen bandied about, inasmuch as the majority of shops will probably be rented. Nevertheless, whatever they are, they should not fall mainly on the retail societies. If they fall on the participating member-societies, one of the objects of the scheme

¹But there is one policy decision on which we do make a firm recommendation : namely, that the chains should not confine themselves to selling only Co-operative productions. We argue this question in a wider context in Chapter 12.

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would be frustrated, namely, that of releasing retail capital for other developments ; on the other hand they should not fall directly on retail societies as a whole by way of offers of loans, since we do not want a number of separate chains competing amongst themselves for retail capital. Over a longer period, of course, internal capital will be built up by an active policy of ploughing-back.

In order that there should be no doubt as to how urgently we regard these proposals, we conclude by recommending that the Congress resolution which establishes, as we hope, the new Development Society, should at the same time authorise it to plan the creation of a national Co-operative footwear chain as the first in a series of national chains. We select footwear for the first experiment both because it most obviously satisfies the criteria laid down above, and because here, more than in any of the other possible trades, the Movement will find, if it does not act quickly, that it has lost the sites and the market irrevocably to its competitors.

Chapter 8

A CO-OPERATIVE RETAIL DEVELOPMENT SOCIETY

The reforms suggested in the last two chapters would go far towards giving the retail Movement an efficient and rational trading structure, so far as the scale of operations was concerned. But there would still be a number of other respects in which local action required to be supplemented by action from the centre. We examine these in this chapter, and conclude that the Movement needs a new central retail institution, which we call the Co-operative Retail Development Society, to provide leadership and co-ordination of a kind which can come only from a national body.

1. CENTRAL ADVISORY SERVICES

A conspicuous feature of the Co-operative Movement is the extreme variation in efficiency and performance between local societies. If this could be reduced, by raising the level of the less efficient societies, Co-operative trade would by this fact alone receive a sharp upward impetus. We have not mainly in mind the small minority of "problem" societies in grave financial difficulties. Naturally progress would be greater if they could be rehabilitated. But even more striking results would be achieved if the great majority of ordinary, reasonably healthy, but not outstanding societies could improve their standard of efficiency—if, in other words, the *average* standard of Co-operative performance could be raised to the high level already attained by the best societies.

From this point of view, the Co-operative Movement should start with a natural advantage. On account of its size and long experience, it possesses a large reservoir of expert knowledge ; and enjoying a unity which is none the less genuine for being voluntary, it is exceptionally well placed to disseminate this knowledge amongst its constituent parts. There is much less excuse for large variations in efficiency or standard of shop in the Co-operative Movement than there would be between independent retailers or multiple shop firms ; for the poor performers have only to look within their own Movement for advice as to how things should be done.

But this of course requires, in a Movement consisting of so many separate though associated units, a central body to act both as the

repository of knowledge and the source of advice and information. This body, to be effective, must see its role as an active and positive one. It must not wait to be asked for advice ; it must also proffer it. Such initiatives from the centre are, we know, sometimes criticised as " meddling interference " with the affairs of sovereign local bodies. We take a different view. The affairs of a society are not of concern only to its own members. " Co-operative " is a national word ; and the deficiencies of one society affect the reputation of the whole Movement. Only a central body can assume responsibility for this reputation ; and in discharging this responsibility it has not merely a right, but a duty, to concern itself with the affairs of any society in the country.

Moreover a central source of expert advice is essential if Boards of Directors are successfully to fulfil the role assigned to them in Chapter 5. At present, they are handicapped in assessing the competence of their officials by the absence of detailed and up-to-date yardsticks by which to judge ; as a result, officials are often unduly immune from informed and searching criticism. The provision of clear yardsticks and detailed advice from a national centre would strengthen the real, as opposed to the apparent, control exerted by elected Boards.

We are aware that the national bodies already show concern, and proffer advice, in various ways. The Union's Research and Statistical Department regularly reviews societies' Reports and Balance-sheets ; if these show a withdrawal of reserve funds or some other disturbing feature, the society concerned may be approached by the Sectional Board. The same Department and also the Finance Department are available, on request, to visit societies, investigate their affairs, and make recommendations as to future policy. There is a steady outflow of trading statistics, both on a national and departmental basis. The Trade Associations offer technical advice ; and especially in bakery, milk, and coal they have, by their unrelenting pressure, contributed to a notable rationalisation of Co-operative facilities. And there is, of course, a continual succession of mutual visits between societies.

The Wholesale Societies also offer a variety of retail services, though normally, as is proper, on a commercial basis. These include the Architect's, Engineering, and Building and Shop-Fitting Departments : joint advertising schemes and display material : facilities

for training staff : in Scotland, a scheme for stocking specialist fashion shops : and so on. And of course the national federations are the major source of outside capital for retail societies and local federations.

Yet we have found disturbing gaps in these services. This is no reflection on the present staffs or advisers concerned, but only on their *numbers*.

We list some of these gaps merely as examples. The Co-operative Movement was foremost in pioneering self-service in Britain ; and it could not have done so without the invaluable help which came both from the central bodies and from exchanges of information between societies. Nevertheless there is still an urgent need for organised central research and exchange of experience on the continuous new developments in self-service ; yet it was left to the private initiative of a few officials to set up the Co-operative Self-service Group. Mechanical handling is of growing importance in the distributive trades ; but the first Co-operative conference on the subject had to be organised (much to his credit) by the editor of a Co-operative journal. There is no central body to advise on stock-control, stock-assortment, shop lay-out, shop-fittings, window-dressing, or the location of new shops.

This last deficiency is especially serious on the dry goods side, where Co-operative performance is in any event weak and few individual societies possess the necessary expertise themselves. We have found, for example, societies engaged in building or remodelling a large department store, whose officials and Board members, having failed to find the advice they need in Manchester, are reduced to making lengthy tours of other Co-operative or private or even continental stores in order to discover the most suitable lay-out and type of fixture. This is because there is no central Co-operative body which compiles regular data on the volume of trade in different types of merchandise attracted by different floor locations, has records with photographs, plans and models of lay-out and fixtures, and so can offer detailed advice on the plan most suitable for different locations.

Again, there is no single body to which a society can turn for advice on its future programme of capital development. There is no

continuing advice or exchange of information on financial policy. We have already suggested in Chapter 5 that too little advice and information are available on labour and personnel questions ; and we also drew attention to the absence of a central advisory service for senior managerial appointments. On some of these matters there are, it is true, periodic *ad hoc* committees, and of course many informal contacts at conferences and elsewhere. What is lacking is a systematic centralisation of the Movement's vast experience in one recognised place where it can be utilised by any society at will.

Even the services which are provided, excellent as they are in quality, are deficient in quantity. The resources available, for example, to the Co-operative Union are sufficient each year for only a very small number of detailed investigations of the affairs of individual societies. The Trade Associations command only limited full-time staffs, and must rely heavily on the services of already heavily-occupied retail officials. We have the impression that even some of the C.W.S. service departments are over-stretched. Nor is there always a clear division of responsibilities between the Union and the Wholesale Societies.

In our view, the following central services need to be made available to retail societies. We use the word "central", recognising of course that some societies are large enough to provide certain of these services for themselves (as, for example, architects, building or works department, personnel department, work study teams, and so on). But all these services must also be available centrally for those societies which need them.

First, the Co-operative Union should be responsible for the following service departments : (a) Legal (broadly as now), (b) Labour (as now, but enlarged to carry out the additional functions mentioned in Chapter 5¹), (c) Employment Advisory Service (as suggested in Chapter 5²), (d) Finance Advisory Department (the present Finance Department), (e) Research and Statistical. These last two departments should have two regular functions : the collation of national Co-operative statistics³, and the provision of

yardsticks of performance and trade progress for Boards of Directors¹. There should also be attached to the Research Department, in the period immediately ahead, a small section charged with the task of carrying out the national amalgamation survey proposed in Chapter 6.

These services all possess one or other of two characteristics which make them suitable for organisation by the Union. They are either non-trading services ; or they are "managerial" common services specifically designed to aid Boards of Directors rather than officials. For example, the Employment Advisory Service is intended to assist Boards in selecting their chief officials ; while the Research and Statistical and Finance Advisory Departments will provide regular performance-indicators (of trade progress, financial policy, return on capital, sales per person, outlets per 1,000 of population, etc.) in order that Boards may have clear and uniform standards of comparison by which to judge the results of their own societies².

But it is in respect of "operational" common services, that is, technical services designed to assist societies in tackling particular

¹For example, they would calculate and publish a regular index of trade progress along the lines suggested in Chapter 1, section IV.

²There is a further way in which the Co-operative Union might assist the Boards of retail societies. This is in relation to the problem of Co-operative versus non-Co-operative sources of supply of merchandise. At present, Boards tend either to fix a percentage of the total supplies that should be obtained from Co-operative sources, or, after the event, to ask for explanations from their officials as to why such and such purchases were made. Neither of these methods is satisfactory. The first pre-judges the issue as to the source of the best merchandise ; the second leads to endless argument and indecision.

To examine the problem, we requested the buyers of six large retail societies to state the proportion of certain items of merchandise which they purchased from Co-operative sources, and their opinions on the merchandise. As might be expected, the proportions and the opinions varied widely. This might be because shoppers in different parts of the country have slightly different tastes, or because the ability of buyers varies. But, in addition, there is often a divergence of view between the production units and the buyers. Boards of Directors, faced with these differences, are in a somewhat untenable position when having to decide the policy of their society.

We therefore suggest that the Co-operative Union might consider the establishment of a central unit which could, if requested by Boards, investigate particular cases of a conflict of opinion on sources of supply. Such a unit would not of course attempt to pass judgment on subjective questions such as quality and fashion ; it would express its views solely on the basis of information on costs, prices, conditions of sale, &c., supplied by the production units and the buyers respectively. The unit could thus provide Boards with independent documentation to enable them to judge and control the buying decisions of their officials.

¹section VII.

²section IV.

³Including some not now regularly collated. (v. Chapter 9.)

problems (such as planning a new store, introducing a new stock-control system, reforming the management structure, and so on) that the most pronounced deficiencies now exist, and that the most far-reaching innovations are called for.

These operational services fall into two groups ; and both, in our view, should be under the control of a new body which we call the Co-operative Retail Development Society. First, the existing Trade Associations should be transferred to the new body as the nucleus of a department specialising in selling and selling techniques research. This department would concern itself with such matters as self-service, self-selection, specialist shops, shop lay-out, fixtures and fittings, display, advertising, stock-control, stock assortment, mechanical handling, and so on. It would keep abreast of the latest developments both in Britain and abroad, organise study groups, provide direct assistance and advice to societies requiring it, and arrange a systematic, instead of the present somewhat haphazard, programme of mutual exchanges whereby (for example) specialist officials from one society could spend a period working and training in another society.

The staff would be built round the nucleus of existing Trade Association personnel. But although the participation of retail society officials on a part-time basis should continue, the number of full-time technical experts would need to be greatly increased. For example, instead of one full-time dry goods officer, as at present, there would need to be more like 10 full-time dry goods experts for different aspects of the trade.

Secondly, the Development Society should create an Organisation and Methods Department, again staffed by full-time experts, and responsible for advice and information on work study, operations research, efficiency audits, office organisation, accountancy methods, the use of computers, and so on. This would constitute a fully-fledged business consultancy and efficiency audit service. We do not support the view sometimes expressed that the Union should be granted the *right* to carry out an efficiency audit on any society whose results are unsatisfactory ; nor indeed have we mainly such societies in mind. Rather do we envisage a service available to any society which feels that its management structure and organisation might be improved by friendly expert guidance. But such a service cannot

be performed spare-time by departments whose major tasks lie in other fields. It requires a separate department, with a full-time staff possessing expert trading and business, as well as finance and accounting knowledge.

Lastly, the Wholesale Societies would of course continue to operate those of their existing central service departments which provide a commercial service to retail societies as well as to their own organisations : building, engineering, architects, shop-fitting, advertising, and (in the future) market research. The one difficult problem here concerns the Market Research Department. We believe that one such Department should logically cover both Scotland and England ; and we therefore recommend that the two Wholesale Societies should establish a joint Department. It also appears to us impossible to separate the market research required by retail societies from that required by the Wholesale Societies. We therefore recommend that the Department should have two functions. First, it would provide the existing market research service for the producing and wholesaling organisations. Secondly, it would provide, on a fee-paying basis, retail market research for the Union, retail societies, and (especially) the Development Society. To this extent, we propose that the Wholesale Societies should treat the Department as being a common service to the whole Movement, and allow it to be freely utilised by the Union and the Development Society.

Such should be the division of responsibility. We are well aware that the development of the new "operational" services in particular will raise intricate problems of administration, recruitment and finance. The cost we discuss in a later section. But the real problem will be the recruitment of personnel. The Development Society will need to draw freely not only on the retail and Wholesale Societies but also on private organisations ; the object must be to attract the widest possible degree of technical skill and experience. We attach over-riding importance to the calibre of personnel and hence to the level of salaries. We should prefer to see the task not undertaken at all, and societies left to seek advice as and where they may, than that it should be skimped and done half-heartedly.

Naturally there will be opposition to these proposals. In particular, critics will say : why provide these costly services when the societies

which need them most refuse to avail themselves even of *existing* offers of advice? But this is to misunderstand the essential object of our recommendations. It may be true that a minority of conservatively-minded societies will ignore these services. We are more concerned, however, with the great majority of societies which are not "problem" societies, but whose efficiency could nevertheless be significantly improved by technical expert help. Amongst these societies we have again and again heard expressions of the need for such advice. We have no doubt that a large unsatisfied demand exists, and will come to light as soon as the services are provided. We should also hope that a new initiative by the centre will encourage more large societies to develop their own research departments to work in close liaison with the central services.

The Co-operative Movement would then, at last, fully exploit what should be a prime advantage of its national scale and voluntary unity: namely, the ability first to centralise and then to disseminate the most up-to-date technical and managerial knowledge. At present, it does this less successfully and on a far smaller scale than many private industries possessing none of the advantages of a common loyalty and organic unity. If our proposals are accepted, we should expect a significant gain in efficiency with no loss either in local autonomy or democratic control; the latter, indeed, will become more real, for Boards of Directors will now have reliable checks on the performance of their officials.

II. ADVICE ON CAPITAL DEVELOPMENT

The common services discussed in the last section are relevant mainly to the day-to-day trading operations of retail societies; they are designed to improve the level of *current* efficiency. They are not relevant to the question of major *capital* developments. But we believe that a need exists in this field also for more assistance from the centre.

We have found societies, especially medium-sized societies located in important shopping centres, which urgently required to embark on a major programme of dry goods development, but which felt hampered by the lack either of capital or of technical advice and encouragement. We discuss in later chapters the question of the overall sufficiency of Co-operative capital; and we are not suggesting

here that societies are normally impeded by a complete inability to obtain the necessary finance.

Nevertheless, we have observed that delay and uncertainty arise because societies needing capital have no single, recognised source from which they know they can obtain it. They can approach the Wholesale Banks for an overdraft, or (in England and Wales) the C.W.S. Finance Committee for a trade loan, or the Co-operative Insurance Society or Co-operative Permanent Building Society for a mortgage, or a neighbouring society for a loan; or, as a last resort, they can join Co-operative Retail Services. In the end the finance will no doubt be forthcoming from one or other of these bodies. But for too long a period societies tend to flounder uncertainly amongst them, not knowing which to approach for what sort of help, wasting precious time approaching the wrong body, or negotiating simultaneously with two or more bodies about the same project. We believe that retail development could be considerably accelerated if there were one normal, routine method of approach for societies needing outside capital.

If there were a single responsible body, delays would be reduced not only on the side of the borrower, but also on the side of the lender. We have found no substance in the complaint of certain retail societies that the national federations are unreasonably reluctant lenders. But there appears occasionally to be some delay, on the part of the C.W.S. at least, in coming to a firm decision. The reason, we feel, is that those responsible are exceedingly busy men with innumerable other responsibilities, mostly in quite different spheres. If the examination of projects, and decisions on them, were to become the responsibility of an expert specialist staff, the present somewhat tortuous and prolonged negotiations (such, for example, as those which have taken place over the capital needs of some New Town societies) might be greatly speeded up.

This staff would also have a positive responsibility for scrutinising development plans and making detailed recommendations about them to the society concerned. Medium-sized societies in main shopping centres, with only a limited past experience of major dry goods development, may well have scruples as to whether their plans for (say) an ambitious new department store are justified by market conditions and are technically well-conceived. The Co-operative Dry

Goods Trade Association already gives occasional advice on such matters. But its resources are altogether too limited to allow of a systematic expert examination of a number of schemes simultaneously. The Board of any society should have immediate access to a body which will examine its development plan from a technical trading standpoint, and advise on the location, size, and design of the stores or shops proposed.

This body must also, in our view, be a division of the new Development Society. It would not need to hold capital itself ; for we want as far as possible to centralise the supply of Co-operative capital, not to fragment it further by creating yet another capital-holding body. Its procedure, on being approached by a society in need of capital, would be to submit the society's development plan to an intensive expert examination, suggest and press such amendments to the plan as it thinks fit, decide which of the Movement's lending bodies is the most appropriate source of capital, and sponsor a request to that body for the necessary sum. The lending bodies are scarcely likely to turn down a request from this source ; for not only will the project have been most thoroughly examined, but they themselves, if our later proposals are accepted, will all be represented on the Board of the Development Society¹.

This proposal would enable the Movement to exert more central influence on societies' separate development plans : it would accelerate decisions on urgent capital projects : and it would avoid a repetition of the recent occurrences, where societies have been virtually driven into C.R.S. for lack of the capital for expansion.

III. THE NEED FOR FORWARD PLANNING

We pass now from the development needs of the individual society to the future development of the retail Movement as a whole. The central question is : whose responsibility is it to think and plan ahead for the next stage of this development ? Rapid changes are occurring, and will occur, in the pattern of consumers' expenditure ; as a result, some retail trades and services will increase in importance relative to others. If the Co-operative Movement is to keep pace with these changes, it must, as a first step, keep them under continuous review and think ahead to each next stage. But this must be

¹v. section IV below.

the responsibility of a national organisation. Individual societies cannot all command the necessary resources for this type of research and forward planning ; and, even if they did, many of the new trades into which the Movement may have to venture will require a national scale of operation.

For example, the Movement must examine the implications of the well-known tendency for consumers to spend a rising proportion of increasing real incomes on leisure and recreational activities. The amounts spent in Britain on entertainment, private motoring, holidays, books, newspapers and magazines already approach the amounts spent in the more traditional dry goods fields of clothing, footwear and consumers' durables ; and they may well increase more rapidly in the next decade. At the moment the Movement almost entirely neglects this huge expenditure. A varying number of societies run garages, motor-coach services, travel agencies, lending libraries, and so on ; and the Wholesales have (though on a small scale) entered the hotel and travel agency business. But the effort is trivial when compared either with national expenditure in these fields, or with the Co-operative effort in other directions. Again, the Movement must carefully watch the progress of mail-order business in Britain. We do not assert, in view of other more pressing commitments, that the Movement should at once invade all these fields on a large scale. But we do emphasise the need for a technically-equipped central body to keep such developments under review, and to advise the Movement on if, when, and how it should make a co-ordinated effort in any of these directions.

It follows that this should also be the body which gives technical advice on the establishment of national chains. We made a definite recommendation in the last chapter that the Movement should at once take steps to establish a national footwear chain ; and we also gave it as our view that scope existed for other chains in the dry goods field.

We therefore recommend that the proposed Co-operative Retail Development Society should include an Economic Planning Division, responsible generally for advice on future developments in the retail trade, and in particular for technical advice on the trades in which, and the order in which, national Co-operative chains might be established.

IV. A CO-OPERATIVE RETAIL DEVELOPMENT SOCIETY

The underlying theme of this chapter has been the need to reinforce the operations of the local society by initiatives from the centre. The Movement must, in our view, accept the case for a national body with explicit responsibilities for retail efficiency and development. Its object will be neither to over-ride the interests nor to usurp the traditional functions of the retail societies. It is, on the contrary, to assist and supplement their efforts in fields in which success can be achieved only by a national scale of organisation. What is required is not authoritarian or dictatorial action, which would be as impossible as it would be undesirable in a democratic Movement : but the voluntary acceptance of advice and leadership, and a willingness to delegate to the centre those functions which cannot be well performed locally.

The functions which would be delegated to the new body, as they have emerged from the argument of this chapter, would be as follows. First, it would create and manage the "operational" common services proposed in section I, and with this object it would take over the existing Trade Associations.

Secondly, it would provide the recognised channel of approach and source of advice for societies needing new capital for development. We do not mean that societies will never in the future make direct approaches to the C.I.S. or the Wholesale Banks. But increasingly they should be encouraged, although they cannot be compelled, to channel their requests for capital through a single body. Similarly the national federations, if approached direct, should automatically consult this body before coming to a decision.

Thirdly, it would create an Economic Planning Division to study trends, both at home and abroad, in consumer expenditure and retail organisation, and to advise the Movement on how to plan ahead for each next stage of retail development.

Fourthly, it would decide in which trades national chains of specialist outlets might be needed, and take the first steps to set them up ; that is, to appoint the first Board of Directors, advise on the appointment of a Chief Official, assist with the provision of a headquarters, &c. Thereafter it would, through its own representatives on each Board of Directors¹, help to co-ordinate the policies of the various chains.

¹v. Chapter 7.

Fifthly, it should eventually assume a similar responsibility for the existing national organisations in the retail field, such as Co-operative Retail Services, National Co-operative Chemists, &c. ; and the constitutions of these bodies should be altered to conform to our suggested constitution for the national chains.

Having discussed the functions, we now consider the control of the new organisation. We believe that the Co-operative Union and the Wholesale Societies should take joint responsibility for it. The Union, acting alone, would not be the proper controlling body ; it has never accepted or been granted a trading function to the extent that would be required for unilateral control of such an organisation, nor would it, acting alone, command the necessary financial resources. The Wholesale Societies, on the other hand, which do command the resources, are not primarily experts in retail development, but in wholesaling and production ; and they would not be the proper bodies to assume the entire responsibility.

We therefore recommend that the Co-operative Union, acting under the authority of Congress, and the two Wholesale Societies, acting under the authority of their constituent societies, should jointly establish a new national federal society to be known as the Co-operative Retail Development Society, the nominal voting shares to be held as to one-half by the Union and one-half by the Wholesale Societies. They would choose a part-time Supervisory Council in the same proportion, to consist of elected persons ; the members would be chosen on the side of the Union by the Central Executive and on the side of the Wholesale Societies from the new Supervisory Councils which we propose in Chapter 13¹. Its general duties would be analogous to those of these latter Councils ; they are described in detail in Chapter 13.

Its first responsibility will be to appoint a full-time executive Board. The size of this Board cannot be exactly laid down in advance. It must depend on the volume of work falling on the Society ; and this, resting as it does upon the voluntary decisions of retail societies, cannot be accurately forecast. Initially it might consist of a Chief Executive Officer, a Deputy Chief Executive Officer, and the heads of the four divisions implied in the above discussion—Operational Services, Organisation and Methods, Retail Development, and

¹v. Chapter 13, section I.

Economic Planning. We would propose that the President of the Supervisory Council should be Chairman at formal meetings of the Board.

We also propose that the Board should include a number of part-time members, who would attend, not indeed its no doubt daily or weekly informal meetings, but (say) its monthly formal meetings at which major decisions were taken. These part-time executives would be drawn from the permanent officials of other Co-operative organisations, thus both ensuring effective liaison and co-ordination, and giving the new organisation the benefit of outside experience. We suggest that they should consist first of six retail society chief officials (chosen of course from Scotland as well as England and Wales), and secondly of three members of the proposed Management Board of the C.W.S.¹ (one of whom would again be the Finance Officer), two members of the Management Board of the S.C.W.S.¹ (one of whom would again be the Finance Officer), and the General Manager of the C.I.S.

The Society's current income will come from two sources. First, it can appropriately charge a commercial fee for a number of the common services which it provides. Secondly, however, it will also need a regular current income from its sponsoring share-holders. So far as the two Wholesale Societies are concerned, this will present no problem.

The Co-operative Union, on the other hand, has no large funds of its own. It will, it is true, save a certain annual expenditure by the transfer to the C.R.D.S. of the Trade Associations. But even allowing for this it would be hard put to it to find 50% of the new Society's working budget out of its present annual income. We therefore recommend that the Central Executive should propose a substantial increase in societies' subscriptions to the Union. Retail societies' subscriptions per member are twice the pre-war figure; but costs have risen by about 3 times, and retail sales by 3½ times. The number of members has of course increased; but even allowing for this, the Union's total subscription income is lower as a proportion of retail sales than before the war. In fact, it stands at exactly 0.0214% of retail sales. It should, in our view, be much higher, primarily to pay for the additional services. It is societies which will reap the

¹v. Chapter 13, section II.

benefit; it is only right that they should defray the cost. They can well afford to do so; and the increase would prove an excellent long-term investment for them.

The Development Society will not itself require to possess capital. It will channel requests for capital from retail societies to the existing lending institutions; while the national chains, once established, will obtain their capital in the manner described in the last chapter. We would, however, anticipate that the Society will exercise a growing influence on how the Movement spends that part of Co-operative capital which is allotted to retail development—by its decisions on and participation in the national chains, by its increasing acceptance as the proper channel of approach for societies contemplating capital development, and by its advice to the Movement on future trends and forward planning¹.

To conclude, the Co-operative Retail Development Society will, in our view, fill what has long been an urgent need in the Movement: namely, for a national body, on which all wings of the Movement are represented, which accepts the responsibility for providing advice and initiating new ventures in the retail field. Just as societies look to the Co-operative Union for leadership in non-trading matters, and to the Wholesale Societies for production and wholesaling services, so they should look to the new Society for leadership and advice on all aspects of retail trading. With this addition to its structure, the retail Movement should be thoroughly equipped to meet the increasingly militant competition of private enterprise.

¹We discuss in Chapter 10 what this implies for the relations between the Development Society and the Movement's lending institutions.

Part III

THE CAPITAL POSITION

Chapter 9

RETAIL CAPITAL

We must now consider whether sufficient capital will be available to support the more rapid rate of expansion which the Movement itself desires, and to which our various recommendations are designed to lead. This chapter discusses the position of the retail societies, the next chapter that of the national federations; in each case we both analyse the present position and try to project future requirements.

I. THE EXISTING SITUATION

In studying the sources and uses of retail capital we have been handicapped by the absence from the nationally available statistics of certain crucial figures. There is, for example, no published figure of the amount set aside annually for depreciation: no break-up of the item "Sundry Funds": no explanation of the exact causes of changes in the various Reserve and Insurance Funds: no separate figure for external borrowing (from the two Wholesale Societies, the C.I.S., etc.); and no detailed statement of the way in which the annual surplus is appropriated for different uses. In addition, it is widely believed that the published figures of sums allocated to reserve considerably underestimate the amounts in fact so allocated.

We therefore requested the Research & Statistical Department of the Union to undertake on our behalf a more detailed analysis of societies' Annual Returns; and for a number of items we also circulated a questionnaire to all societies¹. Time and resources unfortunately limited these efforts to only a small number of years; but we urge that the Research & Statistical Department should in future collect all these figures on a regular annual basis.

Table 16 gives a summarised version of the sources and uses of capital funds by Co-operative retail societies in the years 1953-1955².

¹We are most grateful to Mr. H. Dickinson of Cambridge University for help in preparing the following Tables on the basis of this information.

²Minor differences between the figures given in this chapter and published figures are due to rounding.

TABLE 16. Sources and Uses of Capital Funds by Co-operative Retail Societies 1953-1955 (£m)

Sources	1953	1954	1955	Total 1953-5	Total Per cent
1. Increase in members' capital	—.9	2.4	5.5	7.0	13.0
2. Increase in superannuation funds	2.2	2.4	2.3	6.9	12.8
3. Retained income ¹ .. .. ..	.6	1.2	2.2	4.0	7.4
4. Depreciation ²	8.5	9.6	10.5	28.6	52.9
5. Increase in net liabilities ³	1.7	2.2	3.6	7.5	13.9
	12.1	17.8	24.1	54.0	100
<i>Uses</i>					
6. Gross expenditure on tangible fixed assets ⁴	10.7	12.4	16.1	39.2	72.6
7. Increase in value of stocks	—3.6	1.7	3.4	1.5	2.8
8. Increase in investments	4.5	4.1	2.7	11.3	20.9
9. Increase in cash .. .. ..	.5	—.4	1.9	2.0	3.7
	12.1	17.8	24.1	54.0	100

NOTES : (1) This represents changes in the balance-sheet figures for Reserve and Insurance Funds (excluding the taxation reserve, which we assume to be an accrued liability amount).

(2) The depreciation figure in each year comprises two parts.

(a) A figure representing the depreciation actually written off as such in the books. In fact this figure was not available for the middle year of the series; but it was estimated as being approximately the same proportion of the net trading surplus as in the two years for which it was available.

(b) An amount equal to the difference between the balance on the appropriation of income account as it appears in the books, and the balance of a computed appropriation of income account in which the trading surplus is a larger figure and is arrived at by a calculation based upon the amount of income tax actually assessed. Broadly speaking this difference is equal to the amount of items, disallowed by the Inland Revenue in assessing income tax on the societies, which can be assumed to be fixed asset expenditure written off by societies against revenue.

The summing of (a) and (b) may involve an element of double counting, since if part of the amounts disallowed for tax purposes was actually represented by depreciation written off in the books, it would appear in both the parts of the depreciation figure referred to above.

(3) Increases in sundry liabilities (including creditors), disposable balance, bank overdraft, external loans, and tax liabilities, less increases in debtors and sundry assets.

(4) This figure is gross of depreciation as defined in Note (2).

Table 17 gives comparable figures for 1938. They are not exactly comparable, since both depreciation and expenditure on fixed assets are understated¹. But the understatement is not likely to be more than £1 million; and the broad comparison is certainly valid.

It will be seen that considerable changes have occurred in the relative importance of the various sources of finance; we comment on these in detail in later sections.

Taking the post-war picture, however, there is no sign of any financial stringency *at existing levels of capital expenditure*. The

¹Owing to the absence of tax liability figures for 1938, we could not add to these two figures the additional amount referred to in Note (2) (b) to Table 16. Also Cash is not taken out separately.

TABLE 17. Sources and Uses of Capital Funds by Co-operative Retail Societies in 1938

Sources	Total : £m	Total Per cent
1. Increase in members' capital	6.4	54.7
2. Increase in superannuation funds	1.1	9.4
3. Retained income .. .. .. ..	.5	4.3
4. Depreciation	3.3	28.2
5. Increase in net liabilities .. .. .. ..	.4	3.4
	11.7	100
<i>Uses</i>		
6. Gross expenditure on tangible fixed assets	5.6	47.9
7. Increase in value of stocks	—.4	—3.4
8. Increase in investments	6.5	55.5
	11.7	100

entire increase in capital assets in 1953-55 was financed without recourse to external borrowing ; there was, indeed, an actual repayment of external debt, since the fall in bank overdrafts considerably exceeded the small increase in external loans¹. Indeed not only were societies as a whole able to finance their capital expenditure internally, but they were also adding to their financial assets ; their investments increased by £11 millions over the three years. The reserve of investments, moreover, even allowing for the requirements of liquidity, was still enormous, the total for all societies standing (in 1955) at £223 millions, or 27% of the value of retail sales.

This might seem, at first sight, a reassuring picture, offering no grounds whatever for alarm. But it needs to be qualified in three respects. First, it is a national picture, which conceals some disturbing regional variations. The South-Western Section, for example, contrary to the national trend, was both increasing its external borrowing and drawing on its investments¹. Some individual societies, moreover, especially those, such as the New Town societies, in rapidly expanding areas, were incurring—and rightly incurring—a level of capital expenditure which was far outrunning their own resources. Indeed it was clear from the animated debates which took place at Congress during these years that a number of individual societies were seriously short of capital.

Secondly, there is some evidence (at least from England and Wales) that the picture has changed for the worse in the last two

¹This conclusion is based on more detailed figures supplied to us by the Research and Statistical Department.

years ; in particular, the calls on the national federations for finance have become significantly heavier. After three years in which societies increased their loans and deposits with the C.W.S., 1956 saw a sharp withdrawal to the extent of £6 millions ; and we are informed that the estimated withdrawal for 1957 was over £5 millions. C.W.S. loans and advances to retail societies are also now showing a marked upward trend. The C.I.S. has experienced a similar change. Up to 1951, it received virtually no requests for capital from retail societies ; from 1952 to 1956 it lent to societies an average of some £60,000 annually ; in 1957 the figure is estimated to have risen fivefold to over £300,000 ; and the figure for 1958 is expected to show a further large increase.

Thirdly, the fact that societies as a whole were self-sufficient for finance in 1953-55 might prove, not that they were able to finance internally all the capital expenditure which they *should* have undertaken, but that they undertook only that level of capital expenditure which they could finance internally. The Movement has historically shown an antipathy to borrowing, and a reluctance to draw on investments to finance an increase in trading assets ; and these sentiments may have conditioned the actual rate of expansion. All we can say, therefore, is that enough internal finance was available to accommodate the expansion that actually took place. But this leaves entirely open the question of whether enough internal finance would be available to accommodate a *desirable* rate of expansion. The next section discusses what such a rate might be.

II. FUTURE CAPITAL REQUIREMENTS

Recent levels of capital expenditure appear to be seriously inadequate if compared either with the pre-war level, or with what is happening in the private sector. Allowing for price changes, the gross fixed capital expenditure of retail societies appears to have been actually lower in 1953-55 than in 1938 ; while Table 18 shows that the increase between 1948 and 1955 was considerably less in the Co-operative Movement than it was in the distribution and service trades (which are the nearest available comparison) as a whole.

These figures suggest that the Movement has lagged badly behind in respect of capital formation ; and this Table alone would give grounds for alarm about the future.

But the position can be stated even more directly than this. Recent levels of capital expenditure, as the figures in Chapter 1

TABLE 18. Gross Fixed Capital Formation at 1948 Prices

		1948	1955
1. Distribution and other services :	£m ¹	48	173
2. Co-operative retail societies :	Index	100	360
	£m ²	8	12 ³
	Index	100	150

NOTES : (1) *National Income and Expenditure, 1957* (Blue Book), Table 51. Road goods vehicles (Table 49) have been subtracted from the figure shown in Table 51 to give a nearer approximation.

(2) The Co-operative figures for both years exclude the amount of capital expenditure referred to in Note (2) (b) to Table 16; but there is no reason to suppose that this affects the comparison between the two years.

(3) The Co-operative figure for 1955 was converted to 1948 prices by using the price indices implied in Tables 50 and 51 of the Blue Book.

demonstrated, have barely enabled the Movement to maintain its share of total retail trade, and have not enabled it to keep pace with the multiple shop organisations. If the Movement wishes significantly to increase its share of trade, it must also significantly increase its rate of capital expansion.

We give in Appendix 1 a 10-year projection of the likely capital requirements of the retail Movement on the assumption that it wishes to increase its food sales by one-third and to double its share of non-food trade. The figures are, inevitably, crude, but they give some idea of the orders of magnitude.

They suggest that the Movement should spend, over the next 10 years, a total of £190-205 millions on new fixed capital assets; and to finance the anticipated higher turnover, it is estimated that an increase of £50-65 millions in working capital for stocks will also be required.

Additional working capital may be needed for another reason. A comparison of British and U.S. figures suggests that Hire Purchase trade is likely to expand rapidly in this country over the next decade, in the Co-operative Movement as elsewhere. This in itself would call for an increase in Co-operative working capital. But, in addition, many of our recommendations are designed to bring the proportion of dry goods to food trade in the Co-operative Movement nearer to that which obtains nationally; if this occurs, the demand for extra finance will be relatively greater in the Movement than in private trade. This is especially likely inasmuch as a comparison of Co-operative and private trade figures suggests that retail societies are still lagging behind their main competitors in the provision of

H.P. finance¹; and a significant expansion of Co-operative dry goods trade may be impossible unless this gap is closed. We therefore judge that the next 10 years will see an appreciable increase in debtors relative to creditors, and that the item "Increase in net liabilities" in Table 16 might easily be reduced by (say) £1 million per annum.

Future capital requirements will thus be exceedingly heavy—at least, if the Movement takes expansion seriously. They will not, of course, be equally heavy in all Sections, since what is required is not an indiscriminate, but a selective, expansion. Thus the Northern half of the country, where Co-operative penetration is already deep, does not need any large increase in the number of grocery outlets; expenditure should be mainly on renovating and re-siting existing food outlets (for which the need is great) and opening new dry goods outlets. In the South, on the other hand, where existing penetration is less, much more emphasis will have to be placed on new outlets, in food as well as in dry goods. Indeed we think that the greater part of the new expenditure should be concentrated in the South and Midlands—which raises intricate problems, discussed in the next chapter, of the mobility of capital.

We now attempt to assess the magnitude of the additional call for finance which would follow from the adoption of some such expansion plan as we suggest. This plan presupposes an annual capital expenditure on new fixed assets of from £19 millions to £20½ millions for 10 years. Naturally this does not represent a corresponding demand for additional capital, since a considerable expenditure on new assets is already being financed from existing sources of capital; and we assume that these will continue to be available. In the years 1953-55, gross expenditure on fixed assets averaged some £13 millions annually. It is not possible to say accurately how this was divided between replacement and new assets, since it is well known that depreciation in the Co-operative Movement covers a considerable expenditure on what are in fact new assets. But on the basis of experience in private retailing, we might assume that £5 millions out of the £13 millions was incurred on major upkeep and maintenance and replacement of existing assets. This would give a rough figure of £8 millions per annum of net fixed investment corresponding with the £19-20½ millions assumed in our projection.

¹v. Chapter 4, section IV.

This leaves an annual deficiency of £11-12½ millions. In addition, we assume an increase in working capital requirements of £5-6½ millions for stocks and (say) £1 million for H.P. debt, giving a total increase in capital requirements of £17-20 millions.

Part of this could be found at once if societies ceased to add to their financial assets. In 1953-55 there was an average excess of capital provided over capital used in trade of £4 millions annually; and this went to increase societies' holdings of investments. If, instead, this surplus were to be used in trade, the net increase in capital required would fall to £13-16 millions per annum, or a total over the period of £130-160 millions.

III. FUTURE SOURCES OF FINANCE :

(a) MEMBERS' CAPITAL

Where could this additional capital be found? First, there is the possibility of a more rapid increase in members' capital¹. This seems unlikely; for we appear to be faced with an unmistakable trend: namely, that members' capital is increasing (in real terms) at a less rapid rate than before the war, and is of diminishing relative importance as a source of new finance. Between 1927 and 1939, in only one year was the increase less than £4 millions; and in most years it varied between £6 millions and £8 millions. At present-day prices, this would be equivalent to an annual increase of well over £20 millions. In fact, the increase since 1953, when the exceptional period of post-war dis-saving came to an end, has averaged under £4 millions annually. Meanwhile, of course, sales have risen many times in value; and as a proportion of sales, members' capital has fallen from 70% in 1938 to 35% to-day.

The significance of this change for the capital budget may be seen from Tables 16 and 17. In 1938, the increase in members' capital exceeded gross capital expenditure on fixed assets and stocks, and constituted 55% of the total sources of new finance. In 1953-55 the increase amounted to about one-sixth of expenditure on fixed assets and stocks, and only 13% of the total sources of new finance.

¹In discussing the trend of members' capital, we ignore two periods of uncharacteristic movements—the huge war-time increase, and the post-war decrease from 1948-53. These movements, which had their parallel in all other forms of saving, were due to exceptional war-time and post-war factors.

Indeed in some recent years members' capital has increased by less than H.P. and Club debt, so that the members as a whole have actually been net borrowers from societies.

Many reasons for this change have been suggested: the fall in dividend in real terms (with the consequence that non-withdrawn dividends, in real terms, amount to less)¹, the influence of new pension arrangements on the "security" motive for Co-operative saving, the altered age-structure of the population, the growth of H.P. debt, and the fact that in periods of dear money Co-operative rates of interest traditionally lag behind those available on other forms of saving.

There is no sign that all these influences are likely to change in the near future. Dividend rates may well come under even greater pressure; the spread of superannuation schemes may weaken the security motive for small saving in other forms; and the counter-attraction of H.P. debt will continue to grow.

It is sometimes said that an additional and pressing danger resides in the age-distribution of Co-operative capital-holders. Figures are often quoted showing that a small minority of large holders own a very high proportion of total members' capital, while the great majority of members hold only insignificant amounts (though there is no evidence that this was any less true before the war). It is further said that this small but dominant group of large holders consists mainly of old people: that when they die their holdings are characteristically withdrawn and distributed amongst their relatives: and that no similar large holders are coming forward to take their place. We have here, it is implied, the last generation of large holders, from which it follows that a major fraction of Co-operative capital is only precariously retained to-day and is likely to melt away to-morrow.

To test this hypothesis, we commissioned certain researches on the basis of the annual Savings Surveys². These do not entirely bear the hypothesis out. They show, it is true, that few people under 25 are

¹The total amount of dividend is twice what it was before the war, the average rate only one-half. But the important point is that the total amount has fallen substantially in real terms, since prices have much more than doubled.

²These were kindly carried out for us by Mr. P. Vandome of the Oxford University Institute of Statistics. They are published in detail in Appendix 2.

Co-operative members and capital-holders, which raises a disturbing but different question of the appeal of Co-operation to the younger generation. But above the age of 25, they suggest that the age-distribution of Co-operative capital-holders is not markedly out of line either with what one would expect or with the age-distribution of holders of other types of liquid asset¹.

They confirm, it is true, that the higher age-groups own more than proportionate amounts of Co-operative capital². But this is hardly surprising. First, it is what one would naturally expect given the known savings-habits of people at different periods of their lives. Secondly, the same pattern broadly pertains amongst holders of other types of liquid asset. Thirdly, to the extent that the distribution of Co-operative holdings shows a slightly greater bias towards the older age-groups, this is no more than would be naturally explained by the special Co-operative factor of non-withdrawn dividends which accumulate during the holder's life-time. We conclude that there is no direct evidence that members' capital is now especially vulnerable on these grounds.

However, this does not affect the main conclusion reached above, that members' capital is declining in relative importance as a source of new finance. The question is: can anything be done to reverse this trend? Of the various causes mentioned above, only one is directly under the control of societies: the rate of interest. This now stands, on the average, at $2\frac{3}{4}\%$, which is well below the rates currently offered on other competing forms of saving. What is in question is whether an increase in this rate would significantly enlarge the net flow of new capital.

The traditional view is that Co-operative members' capital is not markedly sensitive to changes in the rate of interest. Some substantial portion of it is said to be contributed by the non-withdrawal of dividends; and here the factors of inertia and convenience are assumed to be more important than the rate of interest. Generally, it is held, a main attraction of saving through the Co-operative Movement is the high degree of convenience offered by the extreme ease of both deposit and withdrawal. The average shareholding is, in addition, comparatively small (£21); and the income-change

which would follow from a change in the rate of interest would be negligible on a sum of this size.

This view appears to be confirmed by an analysis of recent changes in holdings of different types of liquid asset. The years 1952 to 1956 witnessed sharp alterations in the relative rates of interest offered on different forms of personal savings. In particular, Building Society deposits became considerably more attractive relative to other forms of savings; generally, other rates of interest rose significantly compared with the Co-operative rate¹. The outcome was that the Building Societies' share of total liquid assets rose between 1952 and 1956 from 14% to 20%, the share of National Savings fell from 57% to 51%, but the Co-operative share fell only from 2.4% to 2.37%². This might suggest that while other forms of savings are sensitive to interest-changes, Co-operative savings are not.

Yet we are not wholly satisfied that this is the case. First, one cannot definitely say what would have happened if Co-operative rates of interest *had* been raised to competitive levels. At the present low levels, many societies report quite large withdrawals; while those few societies which have raised their rates significantly claim a definite net increase of capital in consequence. It might be, therefore, that if rates had been appreciably higher, there would have been not a slight decline, but a significant rise in the Co-operative share of personal savings.

Secondly, in the light of the fact that a high proportion of members' capital is held by a small number of large holders, it seems incredible that it should remain indefinitely insensitive to the rate of interest. The difficulty is that we do not know who these large holders are, or to what influences their investment-decisions are subject. It is possible that we are faced here with a time-lag in attitudes: that these holders, unused in the past to the notion of switching their investments in search of higher (or tax-free) yields, are for the moment content not to withdraw their holdings, but that a growing sophistication may prise them (or their successors) out at some future date. Generally, the competition for small savings may be increasing as large savings are reduced by taxation; and the Co-operative saver may be subject in the future to more tempting alternative offers than existed in the past.

¹v. Table 30 of Appendix 2.

²v. Table 33 of Appendix 2.

¹The average retail society rate of interest rose between 1952 and 1956 from 2.66% to 2.79%, the average Building Society rate from 2.38% to 3.07%.
²v. Appendix 2.

Thirdly, we have seen an examination of the share-accounts of one society, which suggests both that new payments into share-accounts are more important relative to non-withdrawn dividends than has commonly been supposed, and also that a considerable turnover occurs in quite large sums (that is, there are a large number of both contributions and withdrawals of substantial sums). This suggests that members' capital is neither so inert nor so dependent on accrued dividend as is often thought. This society may, of course, not be typical ; but the findings are at least suggestive.

We are therefore disposed to think that a higher rate of interest might often be effective. Naturally the cost must be carefully considered, since the higher rate has to be paid on existing as well as new capital. But the return, in terms of additional capital, might prove to be worth while ; and we would advise societies which are short of capital to consider the matter carefully. We would also urge that detailed investigations should be made into the motives of different categories of Co-operative savers, their attitudes to (for example) tax-free interest payments¹, the importance of the non-withdrawal of dividend, etc. Pending the firm recommendations which should emerge from such surveys, each society must decide its policy in the light of its own capital requirements and of what it knows of the structure of its capital-holdings. But we advise a more sympathetic study of the possibility of higher rates than has been given in the past.

Nevertheless, whatever decisions are taken in the matter, we see little reason to suppose that the annual increase in members' capital will, in real terms, rise very far above the £2½ millions which was the average for the years 1953 to 1955. This fact represents a major change as compared with the pre-war position. Historically, capital has never been a problem in the Co-operative Movement. An abundant annual flow of cheap capital enabled the Movement not merely to finance all its capital expenditure without recourse to borrowing and without the need for heavy ploughing-back, but also to build up a vast reserve of investments which made it the envy of every other trading organisation. These days are, in our view, now over. In the future, the Movement will face the same capital problem as do other enterprises ; and it must adjust itself to finding new

¹This does not mean that we oppose the suggestion that societies which now wish to do so should be allowed to experiment with tax-free interest.

sources of finance to replace the effortless accretion of members' capital on which, in the past, it could so comfortably rely.

IV. FUTURE SOURCES OF FINANCE :

(b) SUPERANNUATION FUNDS

This adjustment has already partially occurred. In 1938, new members' capital provided 55% of new sources of finance ; depreciation, retained income, and the growth in superannuation funds between them provided 42%. By 1953-55, the proportions had altered to 13% and 73%.

The growth in superannuation funds has been especially remarkable. The total of such funds held by retail societies increased from £8 millions in 1938 to £21 millions in 1948 to £35 millions in 1955. As a proportion of capital funds¹, they formed 3.8% in 1938 and 9.6% in 1955.

The usual practice is for the superannuation fund to be lent to the local society, which assimilates it to its other sources of capital and uses it either in trade or for investment. There are, we understand, signs of a growing pressure to invest the funds outside the local society ; but this has not so far occurred on any considerable scale².

For the present, therefore, the annual growth in the funds represents a source of finance for capital expenditure, and one of increasing importance. This growth is now at the rate of some £2½ millions per annum ; in 1953-55 it represented just under 13% of total new sources of finance. On unreasonably conservative assumptions³, the total funds will reach £150 millions in 30 years ; on not unreasonable assumptions they might reach £100 millions even in the next 10 years.

Nevertheless, we would counsel the Movement to be circumspect about leaning too heavily on these funds as a regular and reliable source of finance. Not all the funds may remain indefinitely invested in the local society. Moreover a national superannuation scheme may well be introduced in the next few years by one or other political party ; and no one can foretell what its precise effects might be on

¹Defined as members' capital, sundry funds, and reserve and insurance funds.

²The possibility that it may in future is discussed in the next chapter.

³That wage levels and the number of eligible employees remain constant.

the investment-policy of the existing Co-operative schemes. When preparing long-term capital budgets, therefore, it would be prudent to ensure that adequate finance is forthcoming from other sources than this.

V. FUTURE SOURCES OF FINANCE :

(c) DEPRECIATION

Two methods of "ploughing back," or retaining profits, are employed in the Co-operative Movement. The first relates to depreciation policy. It is known, taking the Movement as a whole, that the annual sums actually set aside as depreciation considerably exceed the "conventional" levels allowed against tax by the Inland Revenue. The next section gives an estimate of what this "excess" depreciation may amount to.

This is a policy which we wholeheartedly support. We regard over-depreciation as a prudent and convenient method of ploughing-back. Indeed generally the importance of depreciation policy must inevitably grow over the next decade. Not only will heavier "normal" or "conventional" depreciation be required on account of the higher capital expenditure which we envisage, but the importance of "surplus" depreciation as a method of building up reserves becomes steadily greater as other sources of finance decline (in real terms). Total depreciation (including the element of "excess" depreciation) already accounted in 1953-55 for 53% of total sources of finance; this figure may well have to rise still higher in the future. We therefore recommend societies not merely to continue, but to intensify, the practice of creating hidden reserves by generous depreciation policies.

VI. FUTURE SOURCES OF FINANCE :

(d) RETAINED INCOME

The second and more conventional method of ploughing-back is to allocate to reserve funds part of the annual available surplus. It has not been easy to discover the extent to which this occurs in Co-operative retail societies, since there are no published figures for the whole Movement—though we urge that there should be in future—of the detailed division of the annual surplus. However, we have built up the following table on the basis of figures specially provided for us by the Research & Statistical Department.

TABLE 19. Appropriation of Income after Taxation by Co-operative Retail Societies 1953-1955 (£m.)

	1953	1954	1955	Total 1953-5	Total Per cent
Surplus after Taxation on Trading and Investment Income ¹	53.9	58.4	63.4	175.7	100
Less Depreciation ²	8.5	9.6	10.5	28.6	16.3
Share-interest	6.2	6.3	6.5	19.0	10.8
Dividend on purchases	37.9	40.5	44.3	122.7	69.9
Balance : Retained income ³	1.3	2.0	2.1	5.4	3.0

NOTES : (1) This amount is based on the published figure for surplus. To this figure we have added back the full amount of depreciation as defined in Note (2) to Table 16; and from it we have deducted, first, certain minor allocations (e.g., bonus on wages, superannuation contributions, donations, education grants), and, secondly, a figure of income and profits tax liability which we discovered by a special questionnaire to societies.

(2) As defined in Note (2) to Table 16.

(3) This is the residual balance on the above statement. It differs from the "retained income" item in Table 16 by the amount of income and expenditure credited or debited to reserve accounts.

We have here a startling contrast with the practice of private enterprise concerns. We give in Table 20, in a summarised form, the corresponding figures for public quoted companies in retail distribution over the same period. It will be seen that whereas Co-operative societies set aside only 3% of their surplus for future expansion, the private enterprise concerns set aside 37%; and whereas Co-operative societies pay out nearly 70% in dividend, the private enterprise concerns pay out only 42%.

TABLE 20. Appropriation of Income after Taxation by Quoted Companies in Retail Distribution 1953-1955 (£m.)

	Total 1953-55	Per cent
Surplus after Taxation on Trading and Investment Income	164.3	100
Less Depreciation	27.1	16.5
Interest on long-term loans	5.6	3.4
Dividend on shares	70.2	42.7
Balance : Retained income	61.4	37.4
	164.3	100

SOURCE : Figures obtained from the Board of Trade.

The contrast emerges even more sharply if we exclude depreciation and interest, both of which are more or less inescapable claims

on the surplus, and consider the "disposable" surplus which remains either for distribution in dividend or for building up reserves. We take the sum of the three years 1953-1955, and again compare Co-operative retail societies with public quoted companies in retail distribution.

TABLE 21. Comparative Distribution of Disposable Surplus 1953-1955

	Co-operative Societies		Quoted Companies	
	£m.	Per cent	£m.	Per cent
Disposable surplus .. .	128.1	100	131.6	100
Dividend .. .	122.7	95.8	70.2	53.3
Retained Income .. .	5.4	4.2	61.4	46.7

SOURCE: As for Tables 19 and 20.

We find these figures profoundly disturbing. The Movement's main competitors are retaining nearly half their disposable surplus for future expansion; the retail societies are retaining only 4% and paying the remainder out as dividend.

What this means for the capital position may be seen by comparing the respective contributions of retained income to total sources of finance. Table 16 showed that in Co-operative retail societies, retained income provided only 7.4% of the total capital funds available each year; Table 22 shows that the corresponding figure in the private retail trades is 58.4%.

TABLE 22. Sources and Uses of Capital Funds by Quoted Companies in Retail Distribution 1953-1955 (£m.)

Sources	Total 1953-55	Per cent
1. Increase in share and loan capital .. .	23.4	17.2
2. Depreciation .. .	28.9	21.2
3. Retained income .. .	79.7	58.4
4. Increase in net liabilities .. .	4.4	3.2
	136.4	100
<i>Uses</i>		
5. Gross expenditure on tangible fixed assets ..	100.5	73.5
6. Increase in value of stocks .. .	36.6	26.8
7. Increase in marketable securities .. .	6.7	4.9
8. Cash .. .	-7.1	-5.2
	136.7	100

SOURCE: As for Table 20.

There is, it is true, one respect in which these figures need adjusting. As was mentioned in the previous section, the Co-operative Movement over-depreciates heavily—by writing off 100% of capital expenditure in the first year, or charging capital items to revenue account. Thus depreciation in each year is greater than would be required on strict accounting principles; and the depreciation figures contain an element of "excess depreciation" which might be considered, not indeed a "free" retention of income, but nevertheless an additional special retention set off at once against capital expenditure. On the basis of tax-liability returns, we estimate this additional retained income to have been: 1953, £1.6 million; 1954, £2.1 millions; 1955, £2.3 millions.

But the addition of these sums scarcely affects the contrast which emerges from the tables. Co-operative retail societies are ploughing-back a far lower proportion of their surplus; and their retained income finances a far lower proportion of their capital expenditure. This was very well in the days of large and effortless annual increases in members' capital, and when the Movement's competitors were less expansion-minded. But it will hardly do in the more difficult conditions of to-day.

Why is so little put to reserve? Apart from the fact that capital has, until recently, been plentiful, there are two reasons. The first is the influence of the tax system. Dividend on purchases, being equivalent to a discount, is not subject to tax; retained income is liable to the normal tax on undistributed profits. The more is retained, therefore, the higher the tax liability; and Boards of Directors, like other individuals, are averse to paying tax.

Now of course it is an advantage to pay less tax. But we cannot emphasise too strongly that under present conditions it is, in our view, an essentially short-term advantage. It is far outweighed in the long run by the advantage of higher reserves, a stronger capital position, and hence the possibility of a more rapid expansion of trade. To attempt to diminish the tax liability by putting less to reserve can only mean, given the capital position as described in this chapter, the sacrifice of any hope of a major advance in Co-operative trade. No policy could be more short-sighted.

The second built-in prejudice against ploughing-back of course stems from concern with the level of dividend. It is perhaps ironic, in view of the strong animadversions sometimes heard in the Co-operative Movement against high profit distributions in the

private sector, that the top managements of many large private concerns to-day have a stronger bias against high dividends, and in favour of building up reserves, than do Co-operative Boards of Directors. The reason, of course, is a natural one: that in the one case dividends accrue to passive shareholders, in the other to ordinary Co-operative members in proportion to their purchases. There is, nevertheless, food for thought here.

It is sometimes denied in the Movement that dividend and reserve allocations are directly in conflict, once secondary effects are taken into account. It is pointed out, first, that 40% of any sum allocated to reserve is paid out in tax, and only 60% is retained by the society; if, on the other hand, the same sum were paid out in dividend, some substantial fraction would not be withdrawn by members, but would also remain with the society. Dividend might therefore seem as effective a method of building up capital as allocations to reserve.

We are not convinced by this. We have never heard it suggested, and indeed it is most unlikely, that anything approaching 60% of dividend payments, which to-day would be nearly £30 millions a year, is left with societies as *permanent* capital; the examination of share-accounts which we mentioned above suggests that the figure is very much lower than this. Moreover to the extent that some amount of dividend is left in as long-term capital, some fraction of non-trade assets must always be held against it as liquid cover; reserve allocations, on the other hand, require no additional liquid cover. There can be no shred of doubt, therefore, that a much higher proportion of reserve allocations than of dividend payments remains available to the society as free capital.

But it is also said, secondly, that a rise in dividend may lead to an expansion of sales, a larger net surplus, and so ultimately a larger total allocation to reserve. We have already suggested in Chapter 3¹ that there is no clear correspondence between high dividend and trade expansion, and certainly that small increases in dividend normally have no appreciable effect on sales. We gave a number of illustrative examples to show under what conditions a rise in dividend might be effective, but concluded that in the great majority of cases societies faced with a choice between a higher dividend and a higher reserve allocation should choose the latter. In the light of the detailed analysis of this chapter, we see no reason whatever to alter that advice.

¹ section III.

Given the variety of circumstances, we have decided that we cannot lay down any desirable rate of reserve allocation in exact quantitative terms. We have no hesitation in saying that the 1d. per £ of sales recommended by the 1951 Financial Policy Committee is, under present conditions, too low, nor in criticising those societies which maintain their dividend either by drawing on reserves or neglecting proper depreciation. Beyond that, our advice must be couched in terms, not of money or percentages, but of norms of conduct. We recommend that Boards of Directors should, subject to the conditions suggested in Chapter 3, be adamant in treating reserve allocations as the first charge on the available surplus, and that these allocations should be significantly larger than is normal in the Movement to-day.

We cannot emphasise this recommendation too strongly. We estimated in section II that *additional* capital expenditure, over and above the present level, might be required to the extent of £13-16 millions annually if the Movement was significantly to increase its share of total trade. In subsequent sections, we argued that it would be unwise to rely too heavily on a more rapid rate of increase of members' capital, or on the permanent availability of superannuation funds. This means that a heavy burden will be thrown on the retention of surplus, whether in the form of "excess" depreciation or of open allocations to reserve. The retention of surplus provided an average of nearly £4 millions per annum in the years 1953-55; it will need to provide at least as much again if the required expansion is to be satisfactorily financed. Even this would leave an annual gap of £9-12 millions, or £90-120 millions over the 10-year period. It may be said that the assumptions about the future of members' capital and superannuation funds are pessimistic. But it cannot be said that they are inherently improbable; and in our view the Movement would be acting most imprudently if it failed to base its capital budget upon them.

VII. FUTURE SOURCES OF FINANCE :

(e) THE "LIQUID" RESERVE

Even at this stage of the argument, many Co-operators will still decline to be alarmed; for they will think, and be reassured, of the huge reserve of investments which the Movement holds. Having considered the possible annual "flows" of new finance, we therefore turn to consider this possible "once-for-all" source of new trading

questions, what reserve of Co-operative capital, if any, might now be used in trade without threatening the liquidity position?

To answer the first question, we must begin by deciding what proportion of liability-capital, being subject to the danger of unforeseen withdrawal, requires a special liquid reserve to be kept against it. Is it only members' capital, or does it include other liabilities?

Reserve and insurance funds, being collectively owned by the society, are not liable to withdrawal. The Balance Disposable (or the greater part of it) is certainly due to members as dividend or interest; but the liability is fairly exactly known, and the requisite amount of cash can be held against it. Creditors are a normal aspect of the trading function, common to both Co-operative and private enterprises, against which a reasonable sum of working capital will be maintained; they represent no special Co-operative element of uncertainty. The same is true of bank overdrafts; they are normally granted for a determinate period of time, on terms clearly agreed between the customer and the bank; and they are not apt to be called in without warning. The liability on superannuation funds can be precisely foretold for many years ahead by actuarial calculation; in any event the funds will show an annual surplus of income over liabilities for at least three decades to come. We may conclude that it is only against members' capital, which represents the distinctive Co-operative savings and banking function, that a special liquid reserve need be maintained.

What this reserve should be cannot, in our view, be determined by analogy with other financial institutions. Joint-stock Banks, Trustee Savings Banks, Municipal Banks, Building Societies, Hire Purchase Houses—all work on different ratios, because all have different types of depositor, animated by different motives, and hence giving rise to different degrees of risk of withdrawal. It would be foolish, for example, for the Co-operative Movement to imitate the Joint-stock Banks, which hold 30% of their assets in a highly liquid form; for the latter are dealing in deposits which are held solely with a view to subsequent withdrawal. Probably the nearest analogy would be a Building Society. But no analogy is sufficiently close; and the matter can be decided only by judgment and experience.

Experience certainly does not suggest, taking the picture nationally, much danger of a sudden run on capital. The only years

since 1914 when there has been a net decline in members' capital are as follows. (a) In both 1921 and 1922 there was a decline of about 1%. But this followed an exceptional period from 1914-20 when capital almost doubled as a result of typical war-time saving; and some subsequent withdrawal of this huge accretion was easily to be foreseen. (b) In 1940 there was a decline of just over 1%. (c) From 1949 to 1953 there were declines as follows: 1949, 1½%; 1950, 1½%; 1951, 3%; 1952, 1%; 1953, 1%. But again this followed a war-time increase of nearly 70%; and again it was not hard to anticipate that some fraction of the exceptional gain would not be held.

The largest net withdrawal in any one year has thus been 3%. There was no net withdrawal during the year of the General Strike, nor during the worst years of the depression; only 1% was withdrawn during the year of Dunkirk and the Battle of Britain; and the other withdrawals were all predictable (and minor) reversals of an exceptional war-time trend.

This does not suggest the need for any great anxiety. Nor is there any obvious reason to suppose that future experience will be different. We argued earlier, it is true, that the annual *rate* of increase in members' capital was not likely to rise significantly. But we certainly expect *some* continued increase. Indeed given the factor of non-withdrawn dividends, an expansion of trade carries with it the virtual certainty of at least a slight upward trend in capital. There might be some danger if Co-operative interest rates persisted in being wholly out of line with market rates; but the logical response to that danger would be to raise interest rates, not to keep a vast liquid reserve. We conclude that there is no reason to expect the picture to alter markedly in the years ahead.

Taking the country as a whole, it is hard to believe in the light of this that the Movement needs to work on a ratio higher than 10% of extremely (say, within 3 months) liquid assets, with a further 10% second-line reserve of investments designed mainly to create confidence that withdrawals can in fact be met.

We do not, however, put forward a single ratio which we think would be valid for all societies; for naturally the risks of withdrawal vary between societies. Partly they vary with local conditions, being greater in an area of declining than in one of expanding population

or incomes ; in a rapidly growing New Town, for example, the danger of any *net* withdrawal from a financially sound society would seem to be almost non-existent. And partly they vary with the financial position of the society, being naturally greater if trade and dividend are seen to be falling.

Societies must therefore make their own detailed decisions in the light of local conditions and their own past history (if any) of net withdrawals. But we think that the Movement as a whole has, in the past, worked on an unnecessarily high ratio ; and societies in expanding areas could, we believe, operate on an exceedingly low one.

The next question to decide is which of the Movement's investments can properly be regarded as liquid. We have found a tendency to speak as though all investments could be so regarded, and to define the liquidity ratio as the ratio of all investments to members' capital. We do not regard this as being in any sense a liquidity ratio, or indeed as being a ratio which has any particular significance of any kind. Many of these investments are not properly liquid, being either not realisable at all, or else realisable only at a heavy loss.

We have already pointed out that the £45 millions invested either in Wholesale Societies' shares or in other Co-operative societies are properly to be regarded as trade investments. They are either not withdrawable at all (as with the Wholesale Societies' shares), or withdrawable only at the cost of damaging other Co-operative enterprises (as with loans to federal or productive societies).

We have therefore eliminated these to give a total of £178 millions of non-trade assets. These are divided as follows :—

1. INTERNAL INVESTMENTS (£m.)

Advances to members	13
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These are mainly mortgages on house-property, and hence distinctly illiquid. It is true that if they were carefully spaced through time, as are a Building Society's mortgages, so that repayments were occurring regularly, they might be regarded as part of a second-line liquid reserve. But there is no evidence that they are so spaced. Generally, we do not favour this form of long-term non-trade investment by retail societies, particularly as there exists in the C.P.B.S. a body specially equipped to undertake it.

2. OUTSIDE SECURITIES (£m.)

British Government	... ... ... ...	36
Local Authorities	... ... ... ...	17
Joint-stock Companies	... ... ... ...	1
		—
		54
		—

These vary a great deal in liquidity, but certainly cannot all be regarded as easily realisable. A large part of the gilt-edged portfolio could be sold only at a heavy capital loss ; and it is often difficult and costly to encash local loans before maturity date. The danger of treating such investments as a liquid reserve may be seen from the experience only last autumn of a Savings Bank which was forced to close its doors despite having 90% of its deposits invested in Trustee Stocks ; these stood at so low a market value that it was unable to meet withdrawals and still remain solvent.

Investments such as these should never be regarded as part of a first-line liquid reserve. They can be regarded even as a second-line reserve only if they are either short-dated, so that fluctuations in their market value are kept to a minimum, or phased in such a way that, irrespective of their average length, a substantial proportion is always on the point of maturing. There is no evidence that these conditions are fulfilled for the bulk of this £54 millions ; indeed the contrary is well-known to be the case. These investments therefore cannot legitimately be treated as part of the required ratio of liquid assets.

3. CO-OPERATIVE INVESTMENTS (£m.)

Co-operative Permanent Building Society	...	9
C.W.S. & S.C.W.S. Loans and Deposits	...	102
		111

Although the exact terms of these investments vary, and some S.C.W.S. loans in particular are for longer periods, it is safe to say that the greater part of this sum is realisable within 6 months, and a large part within 3 months¹. We may therefore count it, and it alone, as constituting the liquid reserve.

¹ Provided, of course, that the Wholesale Societies are able to release it. (v. next chapter).

(Some financial institutions also add in Cash. But the end-year figure of Cash in Co-operative retail societies, for which alone we have information, must be regarded as largely mortgaged against the Disposable Balance.)

A comparison of this reserve with total members' capital gives (for 1955) a liquidity ratio, properly defined, of 37%. It will be evident from our remarks earlier that we regard this as much more than adequate. But we hope that our discussion has reinforced the point that the ratio of all investments to members' capital is a meaningless one, and that liquidity must be defined solely in terms of assets which properly are liquid.

We hope also that it has drawn attention to weaknesses in investment policy as well as nomenclature. Two weaknesses in particular stand out. First, virtually the whole burden of retail liquidity is thrown on to the Wholesale Societies. This would be tolerable, and indeed desirable, if the remaining non-trade capital, which was not required for liquidity purposes, were also invested in the Wholesale Societies; but in fact a large part is invested outside the Movement. Secondly, a large volume of funds—though we recognise at once that there are creditable historical reasons for the fact—is immobilised in investments which are neither helping to expand Co-operative trade nor (because they stand at a loss) contributing to liquidity.

The correct investment policy for a retail society would, in our view, be as follows. First, the society should set aside a small proportion of its capital as a liquid reserve, using the definitions of liquidity proposed above.

Secondly, it should then employ in trade whatever it profitably can. We do not mean by this that every society should employ *all* its surplus¹ capital in its own trade, since the need for development varies between different parts of the country. A rapidly-expanding New Town society, for example, will certainly use its entire surplus capital for its own expansion, and probably borrow heavily in addition. But a society in a declining area, or an area already heavily penetrated with Co-operative shops, will not need all its surplus capital for local capital expenditure. What the ratio will be (above the minimum liquidity requirement) between capital required for own trade and capital not so required will depend on the extent of a society's capital resources compared with the development needs

¹That is, surplus to the requirements of liquidity.

of its own area. There is no one optimum ratio, applicable universally; and we certainly do not wish to see all societies investing up to the hilt in their own areas.

Thirdly, therefore, societies which have capital beyond their own minimum liquidity and local trading requirements should invest the surplus in other Co-operative bodies, and notably the Wholesale Societies.

We now revert to the original question of this section. What reserve of Co-operative capital exists in the form of non-trade investments which are surplus to liquidity ratio requirements, and which could be used for either the second or third purpose just described? In 1955 the liquidity ratio, as defined by us, was 37% (£111 millions to £298 millions). This is unnecessarily high; yet even this would release for trade investment in the Movement all the £67 millions now held outside the Movement or in mortgages. If the liquidity ratio were reduced to 30%, £89 millions would be released: 25%, £104 millions; 20%, £118 millions.

There is, therefore, a very large reserve of capital in the Movement; and if it were to be mobilised and invested in trade, the capital deficiency of £90-120 millions, to revert to our crude calculation of what is required, would be largely filled.

This is, however, subject to three important provisos. First, since the existing distribution of this reserve does not always correspond with the need to use it, a method must be found of mobilising it centrally and then distributing it to where it is needed. The reserve is of no use if those societies which now hold it, but do not need it, simply invest it outside the Movement, out of the reach of the capital-deficit societies. It must therefore be placed centrally, which in practice means with the Wholesale Societies. This raises questions about rates of interest which are discussed in the next chapter.

Secondly, there is the short-term difficulty that a substantial part of the reserve consists of investments which, for the present, could be mobilised only at a heavy loss. They could, no doubt, be used as collateral for borrowing; but before deciding that this is possible we must know that the necessary resources for *lending* exist within the Movement. This is also discussed in the next chapter.

Thirdly, once the £67 millions of outside investments and the £9 millions invested with the C.P.B.S. have been mobilised, the

remainder of the capital reserve consists of loans and deposits with the two Wholesale Societies. Before we can say that this is available to retail societies for their own expansion, we must ensure that the Wholesale Societies are fully able to release it: that is, that its withdrawal would not throw their own finances into confusion. This again is discussed in the next chapter.

The final picture will thus emerge in the next chapter. But subject to these provisos, we may conclude that the likely capital deficiency could be largely met by a once-for-all switch of retail society capital out of investments into trade. But on this calculation almost the whole of societies' available investments above their minimum liquidity reserve would need to be switched. This serves to emphasise once again how precarious the capital position may become in 10 years' time if the Movement really sets its mind to expansion; and above all how vital it is to increase, and increase yet again, the sums allocated to reserve in order to lessen the strain on other sources of finance.

Chapter 10 WHOLESALE CAPITAL

Turning to the capital situation of the national federations, we have to determine first that they command sufficient resources for their own desirable rate of expansion: secondly that they are able to release (or to lend against) the reserve of retail capital discussed in the previous chapter: and thirdly whether they can tap new sources of finance.

I. THE FINANCES OF THE WHOLESALE SOCIETIES

We give in Tables 24 and 25 below the figures, for the C.W.S. and S.C.W.S. together, of the uses and sources of finance and the appropriation of income of the trading departments in the years 1953-1956.

TABLE 24. Combined Sources and Uses of Capital Funds by the C.W.S. and S.C.W.S. 1953-1956 (£m).

Sources	1953	1954	1955	1956	Total	Total Per cent
1. Increase in members' capital ..	5.6	4.4	.3	-6.4	3.9	14.8
2. Retained income ¹	1.8	2.4	2.4	2.4	9.0	34.2
3. Depreciation ²	2.3	2.3	2.5	2.8	9.9	37.7
4. Increase in net liabilities ³ ..	.2	5.5	-4.0	1.8	3.5	13.3
	9.9	14.6	1.2	.6	26.3	100
<i>Uses</i>						
1. Gross expenditure on tangible fixed assets ⁴	1.4	3.2	4.3	5.3	14.2	54.2
2. Increase in value of stocks ..	-.9	2.6	2.3	.2	4.2	16.0
3. Increase in investments ⁵ ..	.2	1.6	.2	1.1	3.1	11.8
4. Increase in bank deposits ⁶ ..	8.5	5.7	-2.0	-5.9	6.3	24.1
5. Increase in cash ⁷ .. . . .	.6	1.7	-3.7	-.2	-1.6	-6.1
	9.8	14.8	1.1	.5	26.2	100

NOTES : Small differences in the totals are due to rounding.

(1) This represents the balance-sheet figure of changes in reserve and insurance funds.

(2) This is a book figure; it contains no element equivalent to the amount mentioned in Note (2) (b) of Table 16 in Chapter 9.

(3) Increases in creditors and provisions less increases in debtors.

(4) This is the sum of the increase in net fixed assets and the amount of depreciation charged.

(5) This mainly consists of advances to, and investments in, subsidiaries.

(6) This relates to the deposit accounts of the Trading Departments with the Banking Departments.

(7) Cash in hand and current accounts of the Trading Departments with the Banking Departments.

TABLE 25. Combined Appropriation of Income after Taxation by C.W.S.
and S.C.W.S. 1953-1956 (£m.).

	1953	1954	1955	1956	Total	Total Per cent
Surplus after Taxation on Trading and Investment Income	12.6	13.6	14.1	15.1	55.4	100
Less Depreciation	2.3	2.3	2.5	2.8	9.9	17.9
Share-interest ¹	2.0	2.1	2.1	2.6	8.8	16.0
Dividend	6.6	6.9	7.1	7.4	28.0	50.7
<i>Balance:</i> Retained income ²	1.6	2.4	2.2	2.3	8.5	15.4

NOTES : Small differences in the totals are due to rounding.

(1) This also includes interest payable on that part of the loan and deposit account which is used in trade.

(2) This differs from the "retained income" figure in Table 24 by the amounts of income and expenditure debited or credited to reserve accounts.

Table 24 shows that taking the four years together the Wholesale Societies were comfortably self-supporting for finance. They obtained sufficient new capital over the period not merely to finance their own capital expenditure, but also to add to their financial assets (as represented by their deposit accounts with the Banking Departments). These assets fell sharply, it is true, in 1956 ; but they were drawn down not to finance the Wholesale Societies' own capital expenditure—on the contrary, total expenditure on fixed assets, stocks and trade investments was covered by retained income, depreciation, and net trade credit—but solely to meet a withdrawal of members' capital¹.

But, as with the retail societies, we must ask whether the current rate of capital formation is adequate. The answer must naturally depend on prior policy decisions about the future of Co-operative wholesaling and production. We discuss these in detail in the next two chapters, and come to the following broad conclusions.

First, the wholesale function is, in our view, changing its character. The buying function remains as important as ever, and indeed needs to be expanded ; but the more traditional *physical*

¹We attempted to construct similar Tables for the Co-operative Productive Federation, but it proved impossible, partly because of the difficulty of summing the varying figures of a small number of separate units, and partly because one of the "sources" items was so negative in the years concerned that the percentage figures were almost meaningless.

functions which revolve round the wholesale warehouse will gradually decline in importance with the further growth in the size of retail societies. This change in emphasis will tend to reduce the need for heavy capital expenditure.

So far as production is concerned, there is already considerable excess capacity in the Movement. Some of this may be taken up if retail demand can be harnessed more successfully than it is to-day. But we should still not envisage a major *net* expansion of productive facilities ; for although some individual lines can and should be expanded, in others we advise a retrenchment so that the Movement may concentrate more heavily on a narrower range of output. We should certainly hope that total output will rise, and rise substantially, as a result of higher productivity ; but we do not have in mind a large extension of factory capacity. Generally, we argue in the next chapter that the weight of new Co-operative investment should, in the period ahead, be thrown on the retail side of the Movement.

This does not of course mean that the Wholesale Societies' net capital expenditure will be zero. A great deal of modernisation is undoubtedly needed in many of their factories ; and some lines are capable of a large expansion. But we do not envisage an increase in the rate of capital formation over and above the present levels at all comparable to the increase which we envisaged in the previous chapter for the retail societies.

It does not of course follow from this that the Wholesale Societies will not face a future stringency of capital, since they hold and acquire capital not merely for their own trading operations, but also on behalf of the retail societies. We therefore turn to the second question raised at the beginning of this chapter : whether the Wholesale Societies are in a position, without detriment to their own activities, to make available the reserve of retail capital which we analysed in the last chapter.

The bulk of this reserve consists of the Wholesale Societies' own members' capital, that is, the loans and deposits made by (mainly) retail societies. (We exclude share-capital as being non-withdrawable.) These at the moment are largely surplus to the trading needs of the Wholesale Societies. In 1955, the C.W.S. was using in trade only £15 millions out of total withdrawable loans of £93 millions, the remaining £78 millions being deposited with the Banking Department ; the S.C.W.S. was using £3 millions in trade, and had nearly

£9 millions on deposit with the Banking Department. We have here a reserve of redeemable assets which is of course far larger than a purely trading organisation would ever carry.

Not only, however, is it already being drawn down by the retail societies—after rising for three years¹, C.W.S. withdrawable loans fell by £6 millions in 1956 and £5 millions in 1957²; S.C.W.S. loans fell by small amounts in the two years—but it needs to be compared with the *future* capital requirements of the retail Movement.

We suggested in the previous chapter that these might amount, over and above existing sources of finance, to £90-120 millions in the next 10 years; but that this sum could be largely found by a once-for-all reduction in the ratio of non-trade to trading assets. We further pointed out, however, that once the £67 millions of outside investments and the £9 millions invested with the C.P.B.S. had been called up, the remaining reserve of non-trade assets would consist entirely of loans and deposits with the Wholesale Societies. If we take the extreme case, and suppose that societies find it desirable to reduce their liquidity ratio (properly defined) to 20%, this would (on 1955 figures) entail the withdrawal from the Wholesale Societies of £42 millions³, leaving £60 millions on deposit to constitute the 20% liquid reserve.

This would not in fact irreparably damage the operations of the Wholesale Societies. They could continue to use £18 millions of societies' loans in their own trade, as they do to-day, and yet still have a figure of deposits with the Banking Departments amounting to £45 millions. The Banking Departments would suffer a fall in their total deposits which, although disagreeable, would not be insupportable. We may conclude that the retail societies could, in principle, mobilise their reserves of capital to the extent needed without throwing the finances of the Wholesale Societies into total confusion.

The strain on the Wholesale Societies could, it is true, be greater than this calculation implies. In the short run this is most obviously

¹We ignore the exceptional war-time and post-war movements, which were largely a reflection of similar movements in retail societies' members' capital.

²The 1957 figure is estimated.

³£118 millions minus £67 millions minus £9 millions: v. Chapter 9, section VII.

because they might find it hard to realise their investments at a satisfactory price in order to release these sums to retail societies. To this difficulty, there is no complete answer; and if retail capital expansion were to gather pace very rapidly, the next few years might be a period of considerable strain, involving the acceptance of further book losses. However, the strain may not in practice prove to be unendurable; for the build-up of retail society capital expansion will inevitably be a gradual process, and meanwhile the difficulty will gradually be solved by the maturing of the Wholesale Societies' gilt-edged investments.

There is a separate though parallel problem, springing from the same basic cause, which was mentioned at the end of the previous chapter. Many of the retail societies' outside investments will also not for some years be realisable at par; and societies, unwilling to sell them at a loss yet needing the additional capital, might either run down their Wholesale loans still further or seek to borrow from the Wholesale Societies against the security of these investments—that is, they might wish to borrow or withdraw more than the £42 millions mentioned above. In practice this again may not occur in the short run on a very large scale; for it is doubtful if retail capital expansion will build up to so high a level before the outside investments begin to mature. But even in the long run it may prove to be the case that a really satisfactory expansion of Co-operative trade will require not merely the use of the retail societies' existing reserves, but additional borrowing as well.

We must therefore ask whether the Wholesale Societies could make available more capital than the £42 millions assumed above. This requires an examination of the position of the Banking Departments, which are the residuary holders of the Wholesale Societies' capital reserves. Their combined assets in 1955 were £223 millions. If the entire £42 millions mentioned above were to be withdrawn, this figure would fall to £181 millions. The Joint-stock Banks' present ratio of advances to total assets is about 25%; if the Wholesale Banks¹ worked on the same ratio, they could make some £45 millions available in advances. But in fact their advances had *already* reached approximately this figure in 1956; and there would therefore appear to be no additional reserve of lending available in the

¹In the rest of this chapter we use the word "Banks" as a convenient abbreviation for Banking Departments.

Banks once societies have withdrawn their "permissible" £42 millions of loans.

Some critics might argue that this was too sombre an assessment for two reasons. First, the 25% ratio of advances quoted in the last paragraph is unusually low by historical standards; the Joint-stock Banks have normally considered 30% to be a safe ratio, and the Wholesale Banks could do the same.

Secondly, it may be that the Wholesale Banks could safely work on an even higher ratio of advances and lower ratio of liquidity than the Joint-stock Banks. We do not mean that they should permanently work on as low a liquidity ratio as they have done in some recent years, lest they be faced again with the necessity of realising investments at a heavy loss; nor do we think that any rational basis exists for calculating the correct liquidity ratio unless a distinction is made, along the lines which we suggest later in this chapter, between short-term and long-term deposits. But if this distinction were to be made, the Banks' deposits should in the future be more stable than those of a Joint-stock Bank. £60 millions of them will represent retail societies' minimum liquid reserves, and as such should be exceptionally secure; while another £25 millions already represent the accumulated Superannuation Funds of a number of the national federations, and are in no danger of sudden withdrawal. It seems reasonable that the Banks should keep a lower than average liquid cover against these deposits, thus releasing a further sum for advances. If the two Banks felt, for example, that they could prudently allow their ratio of advances to rise to 35%, an additional sum of nearly £20 millions would be made available on the above assumption about the total level of deposits.

As against this, other critics would argue that our assumptions were excessively optimistic. In particular, we have assumed that retail societies will keep their entire reserve of liquid assets in the form of deposits with the Wholesale Societies. But they might choose to keep only (say) one-half in this form, and to hold their second-line reserve in short-dated Government stocks. In that event the run-down of Wholesale members' capital would be greater, and the lending resources of the Banks correspondingly smaller, than we have assumed. This outcome might, it is true, be avoided by the adoption of the policies which we recommend in section IV.

But even if it is, and if generally we adopt the most favourable assumptions, we must still conclude that the only additional reserve of capital in the Wholesale Societies, beyond what has already been allowed for in the discussion of retail societies' reserves, lies in the possibility that the Wholesale Banks might work on an exceptionally low ratio of liquidity. And this reserve is neither vast nor—since it depends on technical banking considerations which may vary through time—dependable.

There should, it is true, be an additional reserve of *lending* power in the Wholesale Societies. Some part of the £42 millions which we have assumed to be withdrawn by retail societies (and of the £67 millions now invested outside the Movement, if it could be attracted back into it¹) will not in practice be withdrawn, inasmuch as it will be held by societies which do not themselves need it for their own expansion; it will therefore be available for re-lending to other societies. But this, while it contributes to the mobility and redistribution of the Movement's capital resources, does not increase their size.

It thus seems certain that if the retail Movement genuinely sets its mind to expansion, the present apparently profuse reserves of the Wholesale Societies will be heavily drawn down in the next 10 years. The implication for the Wholesale Societies is surely that they should strive to make themselves as far as possible independent, so far as their own trading operations are concerned, of withdrawable retail society capital. In 1955 they were dependent to the extent of some £18 millions, the remainder of the capital used in trade coming from non-withdrawable shares and reserves.

The degree of dependence can most obviously be reduced by an active policy of retaining profits and building up reserves. Both Wholesale Societies are, of course, already attempting to do this. Tables 25 and 24 show that in 1953-56 their retained income amounted to 15% of the combined available surplus (compared with 3% in the case of the retail societies) and 34% of total sources of finance (compared with 8% for retail societies). Reserve and insurance funds as a proportion of capital used in trade stand at 16% for the C.W.S. and 28% for the S.C.W.S.

These are more laudable figures than the retail Movement can show. Nevertheless they are much lower, as can be seen from Table 20 of the previous chapter, than is normal under private enterprise. We therefore recommend that the Wholesale Societies should make every effort to allocate even more to reserve than they do to-day.

The ideal, as we suggested above, would be that the Trading Departments should be wholly independent of withdrawable loan capital. Their own liability capital would then consist solely of share-capital, reserves, and normal trading credit and advances. The element of insecurity, which inevitably arises when a trading organisation is partly operating on withdrawable short-term capital, would be eliminated. The average cost of capital might be marginally higher in consequence. But this would be more than offset by the advantage that the onus of preserving liquidity would be entirely removed from the Trading Departments and be transferred, where it properly belongs, to the Banking Departments.

The result would be a clearer distinction between the trading and banking functions of the two Wholesale Societies. In a retail society, these functions can never be wholly disentangled. But in the Wholesale Societies, which are large enough to operate separate banking departments, they can be. We think it desirable that they should be, in order that the trading organisations should be free to concentrate, undistracted by financial problems of liquidity, on their proper function of expanding sales.

II. THE FUTURE OF THE WHOLESALE BANKS

If we are correct in assuming that a desirable rate of retail expansion would, over the next 10 years, absorb almost all the reserves of capital (apart from the minimum liquid reserves) now available in both retail and wholesale societies, we must look about for possible other sources of finance.

The most obvious means of acquiring new Co-operative capital would be for the Wholesale Banks to extend their private banking business. Some proportion of all new private deposits, depending on the ratio of advances to total deposits which the Banks had adopted, would be available for lending within the Movement.

Considerable progress in this direction has already been made by the C.W.S. Bank in particular¹. Whereas Co-operative balances have altered little since before the war, non-Co-operative balances have risen fourfold, and now constitute well over half the total. Although some of the additional business may have been won only at rather a heavy cost, it has nevertheless served to augment the lending powers of the Bank.

It is sometimes said that further progress depends on the separation of the Banking from the Trading Departments, and the creation of a separate (though still owned and controlled by the Wholesale Societies) Co-operative Bank. Both logic, and analogy with the Insurance and Building Societies, would seem to support this course². We have, however, neither received nor discovered any definite evidence to show that separation would lead to a large increase in business; and we therefore do not feel in a position to take a definite stand on this point one way or the other.

Certainly more important than the organisational structure is the number of proper banking branches. If this could be increased, there should be scope for a considerable expansion of personal as well as institutional business. The habit of banking and the use of cheques are now spreading rapidly through the population; and Co-operative members will increasingly demand ordinary banking facilities. These should be provided to the extent that resources allow.

Nevertheless, although an expansion of banking business would be a welcome and historically natural development, we see little sign that over the next few years the total of Co-operative capital resources will be significantly increased thereby.

III. THE CO-OPERATIVE INSURANCE SOCIETY

Up to 1951, as we pointed out in the previous chapter, the C.I.S. made no contribution to the supply of retail capital—not from any reluctance to do so, but because no demands were made upon it.

¹The S.C.W.S. Banking Department has a more difficult task for a number of reasons; it can, for example, less easily attract Trade Union accounts, since few Trade Unions have their headquarters in Scotland.

²Though the argument at one time used in the case of the C.W.S. Bank, that only if it were "hived-off" could it significantly increase its ratio of advances, has not proved correct.

But such demands are now increasing, and may be expected to do so even more rapidly in the future.

Some Co-operators, eyeing the vast resources of the C.I.S. with natural envy, think that it should lend to Co-operative societies on specially favourable terms. We do not share this view. The first duty of the C.I.S. is not to Co-operative societies as such, but to its own policy-holders—many of whom are of course individual Co-operators. It would not be right for it to sacrifice their interests by making loans at rates significantly below those currently ruling in the market. We therefore have no criticism of the terms on which the C.I.S. normally lends. Nor have we found any substance in complaints that it is an unduly reluctant lender ; indeed in the last few years it has been willing to lend substantially larger sums than societies as a whole have been willing to borrow.

Looking to the future, the C.I.S. has informed us in confidence of the approximate sums which it would be willing to make available to retail societies for investment in suitable property over the next few years. These sums are substantially above the present level of lending, and they will constitute an important supplement to the resources of the retail Movement.

But they will not cause the capital problem of the next 10 years to vanish ; that is, they will cover only a fraction—certainly not more than (say) one-quarter or one-fifth—of the £90-120 millions “gap” which we have been assuming. The position therefore remains broadly as we have described it in these two chapters.

IV. THE NEED FOR CO-OPERATIVE LONG-TERM LOANS

We cannot, evidently, feel complacent about the future capital position. An ambitious 10-year plan of expansion would substantially exhaust the Movement’s available capital reserves ; and we must consider how these reserves are to be rebuilt against the needs of the years thereafter. Generally, moreover, we do not think that an efficient and expanding Movement can ever have too much capital.

The question therefore arises : should the Movement not seek to attract fresh capital from outside ? This question is linked with another, which has already been mentioned several times : how can the Movement attract back the £67 millions (in 1955) of retail

capital now invested outside ? Should the Wholesale Societies seek to tempt this back, and at the same time attract new outside capital, by the offer of higher rates of interest ?

For the moment, we think that they should not. Over the next four or five years, the supply of capital already inside the Movement will be amply sufficient for all requirements ; and there is no point in incurring a higher interest-burden to attract capital which is surplus to current needs.

But at a later date the Wholesale Societies will, in our view, need to attract this capital. The £67 millions of outside investments will at some stage be required for capital expansion ; and much of it will be required not by the societies which now hold it but by others which do not, or by new organisations set up to undertake retail development. It will then be necessary first to mobilise and then to redistribute this capital through the Wholesale Societies.

This may, indeed, be even more necessary than now appears on the basis of current figures ; for we detect a disquieting tendency on the part of retail societies increasingly to invest their surplus funds outside the Movement. The proportion of their investments represented by shares and loans with the Wholesale Societies was 68% in 1939 and 70% in 1946 ; by 1955 it had fallen to 61%. Moreover we have heard of many societies, only in the last year, making heavy investments in municipal loans ; and we understand that there is also growing pressure to invest superannuation funds outside the Movement. All this may be only a passing phase, reflecting an exceptional “dear money” period. But we cannot be sure ; and we think that plans should be prepared on the assumption that it is not.

The crux of these plans would be the offer by the Wholesale Societies of new long-term loans at competitive long-term rates of interest. At present, the only investments available inside the Movement (with the exception of two types of S.C.W.S. loan) are short-term loans or deposits carrying (in 1956) an average rate of interest of 3½%. These are a wholly suitable form of investment for societies’ minimum liquidity reserves. But those societies with capital surplus to the requirements of this reserve will rightly seek a longer-term investment offering a higher yield. If they cannot find it within the Movement, they will go outside.

We therefore recommend that at a suitable future date the Wholesale Societies, while retaining the present system of withdrawable deposits, should create in addition a new form of long or medium-term deposit designed to attract funds which are surplus both to societies' trading and liquidity requirements.

Such a step would carry with it an important incidental advantage for the Banking Departments. So long as there is no distinction between short-term and long-term deposits, there can be no rational basis on which these Departments can determine how to distribute their assets ; for they cannot know what proportion of deposits are liable to sudden withdrawal and what are not. There is thus always the risk, as recent experience has painfully demonstrated, that they will accept a ratio of liquidity which would be justified only on the assumption that deposits are long-term, and then, when this assumption proves incorrect, be forced to liquidate investments at a heavy loss. Only if there is a clear separation of short-term from long-term loans can the Banks assess their liabilities accurately, and so arrive at a rational distribution of their assets.

A number of criticisms may be made of the proposal to offer longer loans at higher rates of interest. First, it may be said that it will fail in its purpose of attracting retail societies' outside investments, as most of these could be realised only at a loss which societies will be unwilling to accept. This is, of course, true. But we are not thinking mainly of existing outside investments at the present time. We have in mind partly the disturbing danger that *new* funds may increasingly be placed outside the Movement, and partly the *future* need to keep capital inside the Movement as and when the present outside investments mature over the next few years.

Secondly, it may be argued that the proposal will have a disastrous effect on the finances of the Wholesale Societies, since, apart from the interest-cost of any new funds which are attracted, societies will switch millions of pounds out of existing C.W.S. and S.C.W.S. loans and deposits carrying $3\frac{1}{2}\%$ into the new long-term loans carrying a much higher rate. It would be as though a private enterprise concern were suddenly required to raise the rate of interest on all its debenture and loan capital ; the effect on the profitability of its enterprises would be most damaging.

In fact the comparison is somewhat misleading, for, as we pointed out above, the Wholesale Societies use only a comparatively small

proportion of societies' loans in their own trade. Nevertheless the burden would fall on some part of their organisation, and hence affect their total profitability.

The extent of the additional burden will depend first on how much money is switched, and secondly on the rates of interest ruling at the time. On the first point, there should be no question of societies transferring the whole or even the bulk of their present deposits with the Wholesale Societies. These deposits will continue to represent the only short-term liquid asset available in the Movement ; and societies should keep the greater part of their liquid reserves invested in them. The only amount which is in danger of being switched is the (already diminishing) proportion which is surplus to both their liquidity and trading requirements.

The cost will then depend on current relative rates of interest. If the time for the change is aptly chosen, the *net* cost should not be excessive ; for it should then be possible to reduce the rate of interest on the residue of short-term deposits. In the past, this rate has hovered uncertainly between being a short-term rate and a long-term rate. This is because it has remained much steadier than market rates. Thus at the moment, at $3\frac{1}{2}\%$, it is equal to a short-term rate ; but in the "cheap money" period after the war, when it stood at $2\frac{1}{2}\%$, the Wholesale Societies were in effect paying a long-term rate on "withdrawable at sight" deposits. Once a clear separation is made between long-term and short-term loans, the latter should attract only the market short-term rate of interest.

The net cost of the new policy would thus not be great, provided the change was made at a time when short-term rates were below the rates now offered by the Wholesale Societies (that is, below $3\frac{1}{2}\%$). The additional cost of the new long-term loans would then not only be less than in a dear money period like to-day, but it would be partly offset by a reduced interest liability on the residue of short deposits. We therefore recommend that the change should be made only when money is cheaper than it is to-day.

A third objection is sometimes made which we regard as being more emotional than rational. It is said : why should the Wholesale Societies pay a much higher rate to retail societies than the latter pay to their own members ? This (quite apart from the fact that societies' rates are now showing a rising tendency) is surely an

irrelevant question. Any organisation must pay whatever is necessary to attract the capital which it requires ; and it happens that this is different in the case of the retail and the Wholesale Societies. There is no equivalence between the two, and no particular reason why there should be. The real equivalence is between the rate which societies receive by lending long-term to the Wholesale Societies, and the rate which they must pay for borrowing long-term from them ; and it is of course a corollary of this policy that societies should be willing to pay, as well as receive, a long-term market rate of interest.

Lastly, it is sometimes said that retail societies should not invest long-term ; apart from their minimum liquid reserve, they should invest their surplus capital in trade and not behave like an investment-trust. If the Movement were a single entity, we should accept this point wholeheartedly ; and indeed we have recommended a rate of capital formation which will certainly require all the Movement's surplus capital to be used in trade. But in fact the Movement is divided into 950 separate societies ; and we certainly do not want each separate society to use all its capital in its own trade, since there is no correspondence between a society's capital position and the trading needs of *that particular area*. It follows that some societies will have capital which is surplus to their own requirements. As, however, it will not be surplus to the Movement's *total* capital requirements, it should be invested long-term within the Movement so that it may be safely used elsewhere.

We believe, then, that there is a strong case for launching, at a future date when rates of interest are lower and the need for capital greater, a new type of Co-operative long-term loan. This would not of course be the responsibility of the Banking Departments. It is not a Bank's business to borrow long, nor, in view of the fact that it does not lend long, could it make a profit if it did so. We envisage, as we make clear below, that the proceeds of such loans should be re-lent on long-term for fixed capital formation ; and this is not part of the normal banking function. The matter should therefore be the responsibility of new and separate Investment Divisions of the Wholesale Societies. The Banking Departments would of course be affected to the extent that retail society funds were switched into the new loans. But this switch would in no way reduce the lending power of the organisations as a whole ; indeed it would somewhat increase it,

in that a higher proportion of long-term loans than of withdrawable deposits could safely be re-lent.

The immediate object of the new issues would be to attract the surplus capital funds of retail societies. An increasingly important aspect of this may prove to be the retention of Superannuation Funds within the Movement. It may not be easy in the future to keep these funds invested with local societies at existing rates of interest ; and perhaps the only way of preventing a gradual trickle of such funds outside the Movement will be to provide a Co-operative long-term investment offering a competitive market yield. We see no reason, in addition, why the C.I.S. should not invest in the new loans as part of its normal investment policy.

But, more important, outside bodies and individuals should also be encouraged to invest. We have in mind especially the Trade Unions. They now command large and growing capital funds, for which a long-term Co-operative stock would provide an eminently suitable outlet on both financial and ideological grounds. Nor do we see any reason why other bodies and private individuals should be debarred from investing. The new loans will in effect be like debenture capital, carrying no rights of control over Co-operative enterprise ; and, given this condition, we take the simple view that the more capital the Co-operative Movement can attract from the rest of the economy, the greater its power and prospects of expansion. Just how necessary, taking a long view, additional capital will be, has been amply demonstrated by the analysis of these two chapters.

V. THE MOBILISATION OF THE MOVEMENT'S CAPITAL

To the extent that the new policy is successful in attracting either new capital or capital now invested outside, we shall have a relatively greater concentration of the Movement's capital in the hands of the national federations. This would, we believe, be a desirable outcome ; for we want the greatest possible central planning of the use of the Movement's capital resources. At the same time, we have suggested that future Co-operative expansion and capital formation should be concentrated more heavily in the retail Movement than in wholesaling or production. How, then, if the capital is centralised in the national federations, but needs to be employed mainly by the retail societies, is the necessary co-ordination to be achieved ?

We recommended in Chapter 8 the establishment of a Co-operative Retail Development Society, jointly controlled by the Co-operative Union and the two Wholesale Societies. Its functions would be to assess the future capital requirements of the retail Movement : to advise societies on their development plans ; to act as a recognised channel of approach for societies needing capital : and to initiate major new national ventures in the retail field, such as chains of dry goods outlets.

We envisage that the two Wholesale Societies and the C.I.S., having severally determined what proportion of their capital they are prepared to make available for retail development, should then delegate to the Development Society, on which they would all be represented at both the supervisory and managerial level, the responsibility for planning in broad outline how this capital should be employed. They cannot, of course, delegate the actual power to lend the money, since they each owe a final responsibility to their own shareholders or policy-holders. But they should be willing to act within the framework of an overall plan drawn up by a joint body of which they all form part.

This plan would be based on a broad allocation of the total sum which they had indicated that they were prepared to make available. Thus some part would be earmarked for loans to individual societies against the security of property or investments, of the sort which the C.W.S. and C.I.S. already make to-day. A further sum would be earmarked as "risk-capital", to be lent to those societies (for example, in New Towns) whose rate of expansion is outrunning even their possibilities of collateral ; this would be an innovation for the Co-operative Movement, but one for which a need has already manifested itself, and which would be justified by the fact that the two Wholesale Societies will, if our suggestions above are adopted, now command genuine long-term finance. A major part of the available sum would be set aside for the national chains which we discussed in Chapter 7 : a further part for the development of federal activities : and so on.

In all these cases it must be for the national federations themselves to take the final decisions on individual projects. But normally we should hope that they would accept the recommendations of the Development Society. In any event, their decisions should be taken within the framework of an overall plan of retail development ; and

such a plan can be drawn up only by a body, such as the proposed Development Society, on which the federations and the retail societies are jointly represented.

Of course this effort will be largely wasted if the retail societies fail to play their part. Our view that the capital position will become much tighter rests on the assumption that the retail Movement is willing to expand at the rate which we think necessary. Similarly, our belief that the capital deficiency can and should be met by mobilising both the Movement's existing capital reserves and new outside resources depends on the assumption that societies are prepared to borrow this capital at competitive rates of interest. With many societies, such an idea still goes against the grain. Accustomed to decades of cheap members' capital, they have a prejudice against outside borrowing, or, if they are prepared to borrow, a conviction that they ought to obtain their capital cheap.

We believe that such attitudes are now dangerously out-of-date. Societies should, save in exceptional cases, be prepared to pay the same market rate for new capital as their competitors must pay. And, generally, they must be more willing to borrow than they have been in the past—they have, after all, a vast reserve of physical trading assets to use as collateral. As we pointed out in the last chapter, the days are now over when the Movement could rely on a ready annual flow of members' capital far exceeding its trading requirements. Future expansion must be financed by a combination of a much more active and determined policy of self-financing out of retained income, and an increased willingness to borrow, where necessary, from a central fund of Co-operative capital mobilised and deployed in the way described in these two sections.

Part IV

PRODUCTION AND WHOLESALING

Chapter 11

THE ROLE OF PRODUCTION

The gradual entry of the Co-operative Movement into production was animated by a variety of motives, partly social and partly economic. We consider in this chapter whether these motives are as valid to-day as when the original decisions were taken: whether any new arguments have arisen either for or against production: and generally the role and correct organisation of Co-operative production under present-day conditions.

I. THE TRADITIONAL ARGUMENTS FOR CO-OPERATIVE PRODUCTION

The most general motive for embarking on production was the desire to expand the Co-operative share of total national output, in order either to increase the area of "social control" or to appropriate a greater proportion of private profits.

This motive is of course no less valid to-day than 50 years ago. But it must be observed that it is not necessarily a motive for expanding production rather than retailing or wholesaling. At any given moment the Movement possesses a limited amount of capital; and there are no grounds of logic or principle on which to assert in advance that this will give more social power, or transfer more private profit, if invested in a footwear factory rather than a chain of footwear shops, a new flourmill rather than new supermarkets. The answer will depend on what profits are being made, or how great is the need for social control, in different sectors of the economy; and this may well vary through time.

It is also to be noticed that when acting on this motive the Movement should strictly be neutral as between developing new Co-operative enterprises and investing in existing private ones. If the object is to transfer some segment of profit or control from the capitalist to the Co-operative sector, this can in theory be as easily accomplished by buying shares in a private concern as by embarking directly on Co-operative production—indeed sometimes more easily,

since one might gain control of an organisation at the cost of purchasing only a part of its total capital. There may be other objections to pursuing this policy on a wide scale; but it is well to bear in mind that from the point of view of increasing Co-operative control and the Co-operative share of income, investment in outside concerns is a logical alternative to the establishment of new Co-operative concerns.

We conclude that a general desire to expand the Co-operative sector does not necessarily entail a belief in Co-operative production for its own sake, nor does it point to a clear set of principles on which to determine the correct division of resources between production and distribution. It implies simply that the Movement should accumulate capital and generate enterprise to the maximum possible extent, and invest these indifferently in various sectors of the economy according to where the greatest social and financial benefits are to be expected.

A second motive for embarking on production was the desire to establish an industrial system based on workers' control, co-partnership, or profit-sharing. It was this ideal which gave birth to the productive societies now associated with the Co-operative Productive Federation. The greater part of Co-operative production is not, however, organised on these principles; and we do not regard it as part of our terms of reference to say whether or not it should be. So far as production by the Wholesale Societies is concerned, therefore, we find no guidance here to the correct production policy.

Thirdly, it was believed that important operating economies could be achieved by reaching as far back as possible to the sources of supply, and establishing a vertical chain of distribution stretching from the primary producer to the final consumer. First applied in the case of basic foodstuffs, this principle was gradually extended to justify the production of a vast range of other commodities. But there was perhaps not always adequate consideration of whether it was equally valid in all cases. We therefore think it right to re-examine this argument for vertical integration, distinguishing between basic foodstuffs and other commodities.

II. VERTICAL INTEGRATION : (a) BASIC FOODSTUFFS

Nearly 70% of Co-operative production is of foodstuffs, and to a large extent of basic and relatively undifferentiated essentials such

as bread, milk, tea, meat, bacon, and butter. These commodities are said to have a number of characteristics which make them especially suitable for vertical organisation.

First, the essential buying function is exercised in the purchase of raw materials, and not at the wholesaling stage which immediately precedes retail distribution. This latter stage is relatively unimportant, since taste and fashion play only a small role in these commodities. But the purchase of raw materials is the foundation of successful manufacturing in the basic foodstuffs. Materials vary greatly in price, quality and availability ; they are generally bought in a world market ; and much skill is required in balancing supplies of different qualities and from different sources.

This skilled buying function can be carried out successfully only in close association with the processor or manufacturer, who in turn may have to be in equally close touch with a second processor responsible for carrying the product a stage further towards the consumer. Moreover most of the raw materials are controlled by national Marketing Boards both at home and abroad ; and for various reasons, the large bulk buyer who can also absorb seasonal surpluses through his own manufacturing capacity is in a specially favourable position. In fact the whole chain of actions—procurement, processing, wholesaling, and distribution—is normally a continuous process not only in Co-operative but also in private trade, with the capacity of each unit adjusted to that of the others and the weight of control generally exercised at the heavily capitalised bulk-manufacturing stage.

A second advantage of vertical integration is that many of these raw materials have important by-products which can, in a single organisation, be profitably exploited with a consequent reduction in the price of the main product. The flexibility which goes with a unified control at all stages also makes it possible in some cases to alter the proportion of raw materials going into primary and secondary products in accordance with changes in supply and demand conditions.

Thirdly, most foodstuffs are more or less perishable ; and vertical integration makes it possible to eliminate delays and unnecessary storage. Many of these products, moreover, are bulky and weighty, and need to go straight from factory to retail outlet without intermediate concentration at the wholesaling stage. Many also require

specialised transport and related loading and unloading plant, which in turn require bi-lateral capital investment ; and this needs to be planned as a single whole.

Fourthly, in view of the fluctuations on world markets, the profit margin (measured as a return on capital) fluctuates widely and rapidly as between production, raw material buying, and processing ; these fluctuations can be ironed out in an organisation which embraces all stages.

In the light of these arguments, it seems clear that in the case of the basic foodstuffs vertical integration affords a definite reduction in the cost of processing and distribution ; and we therefore regard this motive for production as being equally valid to-day as when the original decisions to produce were taken.

But we must make it clear that these arguments do not point to the necessity for any increase in *agricultural* production—as opposed to manufacture or processing—by the wholesale organisations either at home or abroad. The ownership of estates producing 10% of Co-operative tea requirements is of value. But the argument for the ownership of mixed farms is less strong ; and we feel that existing Co-operative farms should be carefully re-examined to discover whether they play an essential part in the Co-operative food industry, or give an adequate return on the capital invested.

With this reservation, we believe that everything should be done to maintain and, where necessary, improve the present vertical integration of the food departments. We note that the degree of integration varies from one commodity to another, and we think that each should be re-examined to determine whether the difference is inherent in the requirements of the commodity, or represents a difference in stage of development or in managerial efficiency. Processing plant, again, ranges from the ultra-modern to the frankly out-of-date. The siting of plant is not always relevant to the present-day development of the Co-operative Movement, and the links, physical as well as organisational, between wholesale, federal and retail societies are sometimes less well developed than they should be ; nor are the boundaries between these stages perhaps always at the right point. In some fields of production, plant is actually insufficient, either because the process is still new, or possibly because a necessary business risk has not been taken. All these are fields in which fresh capital investment may be necessary if the full benefit is to be obtained from the heavy capital investments of the past.

We therefore think that while the existing vertical commodity structure should be retained, each commodity division should be critically surveyed to discover whether it might be strengthened by a more unified and logical management structure, by regrouping, by an increase in capital investment, or by a better technical integration with retail and perhaps federal societies.

III. VERTICAL INTEGRATION : (b) OTHER COMMODITIES

Even outside the field of basic foodstuffs it has long been believed in the Co-operative Movement that a combined retail-production organisation would possess significant advantages over either a retailer or a manufacturer operating independently. It would be better placed to launch new products and designs: it could conveniently distinguish its own brands and productions from those of its competitors: it could shorten the interval between conceiving an idea on the drawing-board and putting the new style in the shops: it would have complete control over the price and quality of the goods which it retailed: and the factories, enjoying access to a secure market and a guaranteed source of demand, would reap the benefit of longer runs and smaller fluctuations in output. The last argument was especially influential; and it became the practice to enter into Co-operative production whenever retail society demand, which was assumed to be stable and reliable, appeared to justify it.

But here we find that a definite change has occurred in recent years. All these advantages, except the last, can now be achieved by the skilled deployment of buying power on the part of the large-scale wholesaler or retailer. The tendency is more and more to rely on the use of buying power rather than the ownership of factories to obtain goods of the desired price, quality, and design. With one or two notable exceptions, the Movement's most formidable retail competitors to-day possess no factories of their own; yet they fill their shops with goods which are not, on the average, obviously inferior in price or quality to the products of Co-operative factories. It therefore appears that many of the potential benefits to the retailer of vertical integration can be achieved by a large-scale central buying organisation.

However, there might still be an advantage to the *manufacturer* in possessing a secure retail market of his own, and so being able to plan his production with the maximum economy and efficiency. Of course this advantage can never be fully exploited by Co-operative

producers inasmuch as they do not in fact control their retail outlets, which belong on the contrary to autonomous retail societies free to buy as and where they choose. Nevertheless, there is a special link. The retail societies both own the Wholesale Societies, and are attached to Co-operative producers generally by strong historical and sentimental ties. They might therefore be expected, other things being equal, to favour Co-operative productions, and hence to provide an exceptionally stable market for them.

The question is: in respect of how many commodities will "other things be equal"? That is, how often is the consumer neutral between different brands of the same commodity, so that the retail society is able deliberately to favour Co-operative productions without offending its customers? If the consumer is to be neutral, she must not merely find the price, quality and design of Co-operative and other goods to be equal, but she must not be diverted to non-Co-operative brands by advertising, by a desire for variety, and generally by having a number of competing and apparently different brands from which to choose. If demand is not diverted in this way, and the consumer is more or less indifferent to what brand she buys, the retailer has considerable freedom of choice in respect of what brands to stock and what lines to push; and the retail societies, with their natural bias in favour of Co-operative products, can provide a secure market for these products without danger of loss of sales or restriction of consumer-choice.

Where, on the other hand, the consumer is not indifferent, but has definite preferences for one brand rather than another, the retailer has much less freedom. The manufacturer has then pre-sold the goods over the retailer's head direct to the consumer; and the retail society's natural Co-operative bias may be neutralised by a declared consumer-preference for non-Co-operative brands. Thus the advantage to the producer of being linked with his own retail outlets is decisive only in the case of relatively non-differentiated goods.

In fact the range of such goods is tending to decline. This is due partly to the spread of branding and advertising, and partly to the growing demand, as standards of living rise, for a wider choice and variety even in non-advertised lines. The element of differentiation and brand-consciousness is thus increasing, and the area of consumer-indifference diminishing. Under such circumstances, any attempt to

stock shops with the products of one manufacturer only, or even to press one brand too hard, would lead to a definite loss of retail sales ; and the integrated manufacturer, that is, the manufacturer linked to a particular group of retail outlets, cannot (except in a few trades such as men's ready-to-wear) rely on his own outlets to provide him with a secure and guaranteed market.

Of course, if he is not confined to his own outlets, he can counter the tendency of consumers to demand competing brands by enlarging his market in one of two ways. Not being limited to his own outlets, he can try to extend the width of his market by selling to an increasing number of outlets ; and by heavier advertising he can improve his competitive position in each *individual* outlet, thus increasing the depth of his market. But the Co-operative producer cannot attempt the first, since he is for the most part limited to his own outlets ; in consequence, the size of his market will often not justify the scale of advertising required to accomplish the second. He is thus under a handicap in not having access to the entire national market ; and the greater the degree of brand-consciousness, the greater the risk that the demand generated in his own outlets alone will be insufficient to allow economic runs and full utilisation of capacity.

This risk has already become a reality in the Co-operative Movement ; and to this factor must be attributed many of the present difficulties facing Co-operative producers. We have noticed a tendency to attribute them to remediable faults on one side or the other—either to deficiencies in the price or quality of Co-operative productions, or to the failure of retail societies to promote Co-operative goods even when no brand-consciousness is apparent. We do not doubt that remediable faults exist on both sides, and account for some of the difficulties. But they do not account for them all ; for some are certainly caused by the underlying change in consumer attitudes. Even an integrated concern of perfect efficiency would face the problems which we have described.

These problems are still further aggravated by another and familiar trend ; namely, the growth in the economic scale of production. Although the picture varies from industry to industry, the trend is unmistakable. Not only is there, in most industries, an increase in the volume of output and hence the size of the market needed to support the most economic scale of production ; but the element

of research and the degree of technological complexity are growing to the point where only large and relatively specialised firms, with heavy scientific and development overheads, are able to compete successfully.

The integrated manufacturer who is confined to his own outlets is thus caught between two pressures : the size of his own assured market is shrinking, at the same time as the size of the market needed for efficient production is growing. There will therefore be fewer and fewer commodities in which his own confined market will support an economic scale of output.

These difficulties can, of course, be overcome—but not *within* a framework of complete integration : that is, they can be overcome only by deliberately “dis-integrating” the organisation and breaking out of the vertical chain at either the manufacturing or the retailing end. Thus the limitation on the size of the Co-operative manufacturer's market could be overcome by selling freely to private trade and raising advertising expenditure accordingly. Similarly, the need for a larger scale of output could be met by putting a Co-operative brand-name on the product of an outside manufacturer who, because he is selling the same product to other distributors under other brand-names, is able to achieve an economic scale of output.

Either of these might or might not be sensible policies. But neither owes anything to the fact of vertical integration. The first relies heavily on other than the producer's “own” outlets, and indeed is basically no different from the sales policy of any independent manufacturer. The second involves surrendering the idea of a specifically Co-operative product, and consists merely of branding the product of a private manufacturer in the same way as any non-integrated wholesaler or retailer might choose to do. Both policies are well worth considering on general commercial grounds ; but they are unrelated to the particular organisational structure of the Co-operative Movement.

The considerations which determine whether the Co-operative form of integration still confers a significant production advantage will be as follows : first, the scale of output required for efficient, low-cost production ; secondly, the number of Co-operative retail outlets selling the commodity concerned ; thirdly, the extent to which either advertising (whether by Co-operative or private producers) and consequent brand-consciousness, or a general desire

for variety, divert demand towards or away from Co-operative products and so compel the retail society to react accordingly.

It is the interaction between these three factors which is decisive. Thus in some commodities, even though the number of outlets is relatively small, production might be justified if the economic scale of output were also small; conversely, a large economic scale of output would be no barrier to production if there were also a large number of Co-operative outlets combined with a relative absence of brand-consciousness. Or, in another case, a high degree of brand-consciousness might be combined with a strong demand for variety, so that no one producer could ever dominate the market; if at the same time the economic scale of output was not large, production might be justified even though the number of retail outlets was small. Clearly there are endless possible permutations.

We may give some examples, purely by way of illustration, to show how different commodities might emerge as judged by these criteria. Thus bread, milk, and tea are relatively undifferentiated products, which also have a relatively large number of Co-operative outlets; even though the optimum scale of production or processing is large, therefore, the output can be satisfactorily absorbed by the Co-operative market. (The same might be held to be true of banking and insurance.)

At the other extreme, bicycles, lawn-mowers, and electrical goods are heavily advertised and differentiated, and there are few Co-operative outlets; as the scale of production is also necessarily large, it might not be easy to keep Co-operative factories fully utilised. The same conclusion is true of tobacco and detergents; here there are more Co-operative outlets, but this is offset by the even heavier scale of competitive advertising.

In the middle come cases where the criteria give an uncertain answer. Fashion textiles and footwear are heavily differentiated, and the number of outlets is not enormous; on the other hand the economic scale of output is not large. Cosmetics, shampoos and toilet-soaps are heavily advertised and differentiated; on the other hand the demand for variety is such that there is room for many different brands in the market; moreover the scale of production is relatively small. And so on. We emphasise again that we mention individual commodities purely by way of illustration, and not in order to make definite recommendations.

The final decision in any particular case must be taken, as we make clear below, in the light of the expected return on capital. But we emphasise that this return is not likely to be greater *merely because the Co-operative Movement is vertically integrated*, unless the condition is met that an economic scale of production is possible within the limits set by the number of Co-operative outlets and the degree of consumer brand- or variety-consciousness. If it is not met, the Co-operative producer is in no way at an advantage as compared with the independent manufacturer; and the Wholesale Societies would then need to justify production on grounds other than their organic link with the retail societies.

For reasons mentioned earlier, we take the view that the number of commodities, for which this condition is met, is tending to decline: and generally that the argument for Co-operative production which rests on the benefits of vertical integration has a more limited application than in the past. Some of these benefits can now be more simply achieved by the adoption of the right buying policies; others can no longer be achieved owing to the growth of product-differentiation and manufacturing scale. This is not to deny that there are still a large number of commodities whose production is justified by this argument—including, of course, all the basic food-stuffs discussed in the previous section. But they may be fewer than two decades ago. And we may add, in view of the common impression that vertical integration is widespread and indeed on the increase amongst the Movement's competitors, that we have not found this to be the case; with some exceptions, private retail or wholesale organisations do not to-day engage heavily in production, nor do producers control large chains of retail outlets.

IV. THE MONOPOLY ARGUMENT

The last traditional argument for Co-operative production has been the desire to protect the consumer against monopoly; though whether this forms part of the actual history of the Movement, or only of its retrospective mythology, we have not found it easy to decide. We have in fact discovered only one major industry (electric lamps) which the Movement entered after a monopoly situation already existed; in the other cases, the monopoly situation was created after the Movement had already embarked on production for other reasons. Nor, whatever the motives for starting production, have we found much evidence that the Movement has exerted a

decisive effect on monopoly price policy. In most cases it appears that either the Co-operative producers have been content to follow the prices set by the dominant firms ; or, where they have tried to act as price-leaders, their share of the market and scale of advertising have been so small that they have had little effect on the ruling price (though naturally the lower Co-operative price has benefited their own members).

Nevertheless the matter is an important one, and needs to be discussed irrespective of what past policy has been. There are still cases of monopoly or restrictive practices, especially of the cartel type, which clearly threaten the interests of the consumer ; and, going beyond the strict question of monopoly, there are even more cases where Co-operative production might, in theory, benefit the consumer by its influence either on prices or supplies. We discuss these two possibilities separately.

Co-operative production might bring down prices in any situation where they were higher than they would be if more competition, or new forms of competition, were to be introduced. The "excessive" (in some sense) level of prices might be due to the monopoly profits of a single firm or cartel, the inefficiency created or protected by a restrictive market-sharing agreement, or the inefficiency and/or "excessive" profits generated by a situation in which competition, although present, was exceptionally imperfect. The argument thus goes beyond the question of monopoly and restrictive practices as such, and embraces any industry in which an active price policy by a new entrant might bring down prices either by reducing profit margins or raising the level of efficiency.

In fact such situations may perhaps be less common in the future than they have been in the past. A number of influences are at work to make industry more competitive in outlook and practice than in the inter-war period : the effect of government legislation against monopoly and restrictive practices, a public opinion distinctly more sensitive to the drawbacks of monopoly, the greater expansion-mindedness, and the reduced incentive to take refuge in restrictive policies, associated with the change from depression to full employment, the more rapid rate of technical innovation which constantly threatens established products with new substitutes, and, in the future, the possible new competition forthcoming from a European Free Trade Area.

However, some such situations will of course continue to exist. What then are the conditions for their successful disruption by Co-operative production ? First, the Co-operative producers must accept the role of price-leaders, and deliberately set their prices below those currently ruling in the industry.

Secondly, they must capture a significant share of the national market. If the object is to influence prices throughout the industry, it is of no use to jog along with a mere 2% or 3% of the market—especially if this is sold only in Co-operative shops ; competition being usually very imperfect, the existing high-price producers will simply shrug their shoulders and carry on as before. A 25% share of the market might easily be a condition of exerting a lasting and decisive effect on prices ; it is hard to think that a share lower than 10% would often be effective.

We may illustrate this by reference to the Swedish Co-operative Movement, which has traditionally adopted an active price policy as one of its foremost aims. There are no fewer than 9 commodities in which Kooperativa Förbundet produces over 25% of the national output, and 4 more in which it produces between 10% and 25%. The British Movement, on the other hand, in no single case produces 25% of the national output, and in only 4 cases is its share greater than 10%. The higher Swedish proportions are at once the result of an active price policy, and the necessary guarantee of its continuing success.

Thirdly, it follows from the need to gain a large share of the national market that an active price policy would often involve complete freedom for the Co-operative producers to sell to private trade, and consequently a scale of advertising expenditure seldom before envisaged by the Movement. There may be a few commodities in which the Movement could attain the necessary share while selling through Co-operative outlets only ; but these will not be very numerous. Normally it would be impossible to reach the required share without having access to the entire national market and without a most lavish advertising outlay.

Fourthly, the adoption of such a policy would require an immense concentration of capital and managerial ability on the particular anti-monopoly lines which were chosen. It is doubtful if this would be compatible with continuing to produce the enormous range of other lines which the Wholesale Societies now produce.

The strain on the Movement's capital and managerial resources might be rather severe if it tried simultaneously to produce hundreds of different commodities and to challenge the country's most formidable monopolies. It might therefore prove a prerequisite of an anti-monopoly policy, if this were to become the Movement's prime objective, that the majority of existing lines were jettisoned in order to release all available energies for the anti-monopoly struggle.

We argue later that the Movement should for other reasons move some way towards a narrower range of output. But in the light of the above considerations, we do not think that the monopoly situation in Britain to-day is such as to justify an intensive concentration on the anti-monopoly objective, involving as this would the diversion of capital and management on a large scale and hence the sacrifice of other important objectives. Certainly the Movement should keep a reserve of productive capacity and capital against the monopoly danger ; and in individual cases, as to which one cannot of course dogmatise in advance, the danger may justify large-scale production and deliberate price-reduction, with the corollary of heavy advertising and sales to private trade. But generally this possibility should be regarded as a reserve of last resort ; and we should not to-day expect the desire to indulge in price-competition to be a frequent motive for embarking on new lines of Co-operative production.

We now turn to the other aspect of the monopoly argument: the threat to supplies. It was not infrequent in the past for a monopolist, or indeed any strongly-entrenched producer, completely to refuse supplies to the Co-operative Movement. This is naturally much less likely to occur to-day. The Movement has grown to the point where no private boycott has any conceivable hope of destroying or even significantly weakening it ; indeed, a refusal to supply would usually hurt the supplier more than the Co-operatives. As might be expected, therefore, we have found only isolated examples of boycott, and practically none of a complete national boycott. Some societies claim to have been refused supplies by a particular manufacturer ; but we have usually found that some other society is in fact receiving supplies from the firm in question. It seems clear that absolute and unconditional refusal to supply is now a relatively infrequent practice.

It is still not infrequent, however, for firms to impose conditions of sale: in particular, to agree to supply only on the condition that no dividend is paid on the goods supplied. Such resale price

maintenance can still, under the new legislation, be individually, though not collectively, enforced ; and it appears to be especially common in the field of pharmaceutical goods, cosmetics, and radio and electrical equipment.

We are wholly opposed to this practice, both generally because it restricts the retailer's freedom to fix his own (net) prices, and because it deprives the Co-operative member of dividend on these particular goods. No doubt the actual damage done is not as great as is sometimes supposed. Because the goods affected account for only a small fraction of Co-operative sales, most Co-operative members will not be worse off as a result. The dividend "forgone" on these goods is not lost to the society or the members as a whole ; it merely makes possible a higher dividend on other goods. Generally, since the total of dividend payments is determined by the total disposable surplus on all sales, it makes little difference to the members whether dividend is paid on particular goods or not—provided only that they distribute their purchases in a broadly similar way between non-dividend and dividend-attracting goods. Given the relatively small volume and specialised character of the former, this condition is likely to be fulfilled in the majority of cases. Of course sales might still be lost if members did not understand this point ; but then societies must instruct their selling staff to explain it. If this is done, the effect on sales of the "no-dividend" condition should be negligible.

Nevertheless, there will always be some members who purchase relatively more non-dividend goods, and who will therefore be worse off as a result of this condition of sale ; and in any event we think it an undesirable restrictive practice on more general grounds. What then is the right answer to it ?

This is surely provided by an examination of the types of goods on which the "no-dividend" condition is characteristically imposed. It is imposed on no foodstuffs, nor on any significant number of the dry goods lines in which the Movement is relatively strongest (textiles, footwear, furniture). It virtually affects only goods, in particular chemists' and electrical goods, in which Co-operative sales are small and the number of Co-operative outlets low. Thus the only manufacturers who have laid down conditions are those for whom the Co-operative market is unimportant anyway. Conversely, to take an example, neither the largest private tobacco firm nor the

dominant private sugar monopoly, though both are considerably more powerful than any of the firms which have laid down conditions, have chosen to do so—they are too anxious to have free access to the enormous Co-operative market in these commodities.

This suggests that the right response to the imposition of conditions of sale is a development of Co-operative retail outlets and sales to the point where the recalcitrant manufacturers find, as their colleagues in other industries have already found, that they cannot afford to dispense with the Co-operative market, and are therefore in no position to lay down terms. When there are proportionately as many Co-operative electrical and chemists' goods as grocery outlets, suppliers of these goods will quickly come to heel. Increased buying strength, rather than Co-operative production, seems the rational and natural answer.

We therefore doubt if refusal to supply, either absolute or conditional, will to-day often be a conclusive reason for embarking on new Co-operative production. There may be a few exceptional cases where it is; there may be other cases where the simplest answer is to invest in a private concern or to set up a joint subsidiary with (say) a firm outside the manufacturers' ring. But generally the answer is to expand the Co-operative retail market.

We conclude that the monopoly argument for Co-operative production is perhaps less strong than it might have been before the war, especially as it relates to the question of supplies. Even so far as it relates to the question of prices, it may be less an argument for entering new lines of production as such, than for narrowing the range of output in order to compete more effectively in a limited number of lines, whether existing or new ones.

V. THE GENERAL PRINCIPLES GOVERNING PRODUCTION DECISIONS

Reviewing the traditional arguments for Co-operative production in the light of present-day conditions, we thus reach the following general conclusions.

First, in the field of basic foodstuffs, which is the most traditional field of Co-operative production, it is still the case that operating costs are reduced if the entire chain of distribution, including wholesaling, processing, and (an element of) production, is vertically organised. The Movement is already heavily involved in these

commodities; and its output in this field should be not merely maintained, but wherever possible expanded.

Secondly, the more general argument for vertical integration, resting on the benefit either to the retailer of controlling his supplies or to the producer of controlling his outlets, has been weakened by the technical and economic changes described in section III, and now applies to a narrower range of commodities.

Thirdly, the monopoly argument for Co-operative production is not in most cases decisive to-day; and, to the extent that it does apply, it would require a heavy concentration of effort on a small number of products. And both this and the second argument can often be satisfied to-day, not by production, but by the skilled deployment of mass buying power.

Roughly we may say that the third argument calls for no fresh production decisions at the present time; the first argument points to a continuation (or preferably an intensification) of existing production policy in the central foodstuffs field; while the second argument suggests a heavier concentration on a narrower range of products outside this field.

We must now revert to the most general argument for Co-operative production mentioned at the beginning of this chapter, which does not depend upon the fact or the assumed advantages of vertical integration or upon any of the specific arguments just discussed: that is, the desire to increase the Co-operative share of total economic activity in order to maximise both Co-operative income and the extent of "social control." Does this, irrespective of what the specific arguments may suggest, point to the need for a large expansion of Co-operative production?

We have already pointed out that this motive is strictly "neutral" as between production investment and retail investment. It will best be satisfied by that direction of investment which offers the highest financial and social return to the Movement. We now offer some general grounds for supposing that this direction will, under present-day conditions, tend to be rather in the retail than in the production sphere.

First, the evidence suggests that the Movement may already be over-expanded in some fields of production. A considerable number of Co-operative factories are in varying degrees under-utilised¹; and

¹Chapter 1, section VI.

indeed this is agreed on all sides to be one of the Movement's most urgent problems. It may of course merely reflect a low level of factory efficiency or an organisational weakness. But it suggests at least a *prima facie* case for subjecting future production projects to an exceptionally severe scrutiny.

Secondly, too great a proliferation of separate and diverse activities within one organisation leads to an excessively wide management "spread." The two Wholesale Societies are already multi-purpose producers and wholesalers on an unparalleled scale. The result is on the one hand too little specialisation in the higher ranks of management, and on the other a wasteful dispersion of scarce talent. Top managerial ability is everywhere the scarcest factor of production ; and its availability should to some extent determine the size and complexity of the organisation. Even on optimistic assumptions about the share of such talent which the Wholesale Societies are able to recruit, we doubt if it will justify the extension of production into even more lines than now. Indeed it is generally a mistake for an organisation to try to do everything itself ; it should concentrate on those activities for which it is naturally fitted, and contract the remainder out to specialists.

Thirdly, while the above argument against horizontal over-commitment applies to any organisation, it applies with particular force to a manufacturing organisation under present-day conditions. Over a large sector of its output, the Co-operative Movement is to-day competing against giant concerns specialising in the production, not indeed always of a single commodity, but at least of a related group of commodities. The two Wholesale Societies, on the other hand, are sprawling, unspecialised, all-purpose concerns ; and not only are they unspecialised, but they are also, in a majority of lines, small-scale producers. In many industries, the advantages of specialised large scale must eventually prove decisive ; naturally there will remain industries of which this is not true, but their number may diminish still further if the establishment of a European Free Trade Area brings an additional pressure on industry to specialise and increase its scale of output.

We therefore doubt if the Movement's production organisations will prosper unless they concentrate, whatever happens to the total volume of output, on a narrower range of output than now.

Fourthly, we suggested earlier that the integrated producer, who is tied to his own retail outlets, is under a growing disadvantage in

the field of branded and differentiated goods. Of course this disadvantage can be overcome by selling freely to private trade. But it is idle to pretend that this is without its special difficulties in the Co-operative Movement ; and it is clear that the less advantage the factories gain from being integrated, and the more they must rely on sales to private trade, the smaller becomes the attraction of Co-operative production.

Fifthly, we suggested in Chapter 9 that scope existed for an ambitious and successful programme of retail expansion over the next decade. If the Movement possessed unlimited supplies of capital, it could no doubt finance both this and an equally ambitious expansion of manufacturing output. But our analysis of the capital position made it clear that the retail development programme, if adopted, would pre-empt the greater part of the Movement's present and future financial reserves, and that a choice must therefore be made between alternatives. This naturally does not mean that all available capital must go either into retailing or into production ; but a choice must be made as to where the weight of new investment is to be placed.

In the light of the previous arguments, and given that a choice must be made at least in general terms, we think that the weight of new investment over the next decade should be thrown on the side of retailing. This does not mean, as is sometimes suggested, that the Movement then becomes merely a distributing agent for capitalist goods, simply contributing to larger private profits. Quite apart from the fact that Co-operative production should certainly expand still further even under this suggested policy, the test of whether the Movement contributes more or less to private profits has nothing to do with production versus retailing. The only test is its share of total economic activity ; and this can be increased, and private profits reduced, as well by expanding retail sales as manufacturing sales.

Nor does our conclusion mean that the production side of the Movement will stagnate. On the contrary, considerable new investment must certainly take place in the basic foodstuffs field ; a great deal of modernisation is needed throughout the production field ; and of course there may still be favourable opportunities for entering particular new lines. Total Co-operative output will, in

consequence, rise substantially. Nevertheless, the greater effort should be concentrated on retail development.

Given this general decision, and in the light of the detailed arguments adduced in previous sections, the right production policy, in our view, would be to narrow, as opportunity offers, the range of output and the number of separate lines produced, and to use available resources mainly for improving the efficiency and expanding the scale of output of the remaining lines. The ideal should not be to try to produce everything which is sold in Co-operative shops, regardless of whether the goods can be as well produced outside, but to become a specialised, formidable and large-scale producer of a limited number of basic goods in which the Co-operative Movement has a special advantage. Such a policy, of concentration rather than diffusion, would significantly increase the impact of Co-operative production on the economy as a whole.

VI. THE WORKING PRINCIPLES GOVERNING PRODUCTION DECISIONS

Within the framework of this general policy, the detailed investment-decisions should be taken on the basis of a comparison of relative rates of return on capital. This concept does not appear to have been very rigidly applied in the past; the producing organisations seem often to have been rather indifferent to the exact return on capital to be expected from different projects. This was no doubt partly due to the influence of dividend, which, because it is measured as a percentage of sales, tends to divert attention from return on capital to return on sales. And partly it was due to the abundance of finance at the Movement's disposal. Since capital was never scarce, it tended to be employed somewhat casually and even haphazardly under the influence of a variety of motives, perhaps not always very systematically thought out. One result is the present extraordinary diversity of Co-operative production, characterised as it is by marked variations in the degree of profitability and factory-utilisation.

We think this to be an unsatisfactory state of affairs, but one which is the inevitable outcome of the lack of a single, uniform and rational economic criterion by which to assess the suitability of different investment-projects. Any organisation, in the absence of such a criterion, will be pulled hither and thither by conflicting

interests and pressures; lacking an explicit set of rules, it will become distracted, over-extended, and extravagant. There must, in our view, be a uniform criterion by reference to which investment priorities can be established.

This can only be the rate of return on capital. First, this is the criterion most likely to give consumers the products which they want. The rate of return to be expected from a particular use of capital will be broadly determined by the strength of consumer demand for the additional output attributable to that use; hence, a comparison of relative rates of return on different uses of capital will give some indication of how consumers would prefer that capital to be employed. Naturally the indication is a crude one, for the economic system is full of rigidities and imperfections. But it is at least more accurate than any alternative criterion; and over a broad range of consumer goods it offers a reasonable guide to consumers' preferences.

Secondly, it is the only test of whether capital is efficiently used from the point of view of its owners. It is irrelevant whether or not it is immediately scarce (though we gave reasons in Chapter 10 for supposing that Co-operative capital may well become scarce in the next decade). It is still the duty of a Co-operative organisation to deploy its capital to the best advantage of its members; and the best advantage can be measured only in terms of the return which the capital yields. Moreover the basic aim of expanding the Co-operative sector of the economy also requires that the Movement's capital resources should be used, not haphazardly and indiscriminately, but to yield the maximum return.

We emphasise that it must be the *maximum* return, and not merely *some* return. There has been a tendency in the past to embark on a new enterprise whenever retail society demand appeared to justify it, provided only that it offered a "reasonable" return on capital. But not only have the methods of estimating retail society demand proved somewhat unreliable; there was, in addition, no guarantee under this policy that the same amount of capital would not have yielded a larger return if invested in some other direction. Mis-direction of capital must occur if investment-decisions are taken singly and separately, with an eye only to the absolute yield on the one investment. An efficient use of capital requires, on the contrary, a comparison of the likely yield on any projected investment with

the likely yield on all the other possible uses of capital which present themselves.

Thirdly, if capital is deployed to yield the maximum return, it naturally follows that with any given amount of capital the organisation will then earn the largest possible surplus. Now in the case of a retail society, we argued in Chapter 3 that this could not be the single over-riding objective. For, as we there explained in detail, a larger total surplus (and amount of dividend) might be attainable only at the cost of a reduction in the rate of dividend ; and a fall in the rate might both have a damaging psychological effect on trade, and cause some members to be worse off than they were before. But in the case of the Wholesale Societies, the psychological factor is much less strong—at least on the assumption that retail societies are more concerned with the total amount of Wholesale dividend which they receive than with its exact rate per cent of sales. It is true that some individual societies (in fact, those which did not increase their purchases from the Wholesale Societies) would be worse off if the rate of dividend were cut, even though the total amount of dividend increased ; but the duty of the Wholesale Societies is surely to retail societies as a whole—and they will benefit on balance by the increase in the total amount. We conclude that in the case of the Wholesale Societies, concern with the rate of dividend and hence with the rate of return on sales should impose a much less stringent limitation than it does in the case of the retail societies on the use of the only proper and efficient criterion, namely, return on capital.

We therefore recommend that decisions about capital expenditure, whether on fixed or working capital, should normally be taken according to a strict set of priorities based on comparative rates of return on capital. In exceptional cases other factors, such as a monopolist's threat to supplies, may naturally also influence the decision ; and we ignore, as being outside our terms of reference, the possibility that the Movement might wish to make investments on social rather than strictly economic grounds. But so far as commercial decisions are concerned, comparative return on capital should be the accepted criterion.

These considerations of course apply not only to decisions within the field of production, but also to decisions about wholesaling and investment in or outside the Movement. The

Wholesale Societies, for example, have a considerable number of trading investments outside the field of their own direct production for retail societies—in farms, joint Co-operative undertakings, joint ventures with private firms, and so on. There will often be excellent reasons for making or retaining such investments, such as the desire to ensure supplies, or to provide a Co-operative brand-name without incurring the risk of entering into production. But it is equally important here as in other fields that all projects should be submitted to the test of return on capital.

If this is to be measured, the comparative costs of different enterprises must also be capable of accurate measurement. From this two corollaries follow. First, within the Wholesale Societies working capital must be accurately allocated to the different productive enterprises, so that the total capital costs of each enterprise can be calculated. Secondly, where internal transfers take place between departments, they must be charged at a true and not an artificial price, so that no indirect subsidisation occurs and the true profitability of each department can be measured. We have not been able to satisfy ourselves as to whether either a clear division of working capital, or a rational system of internal transfer prices, now operates within the Wholesale Societies. We are aware that both these matters pose a real difficulty for the large multi-plant concern ; and indeed calculations of return on capital must always be to some extent crude. Nevertheless they can be made for practical purposes, however crudely ; and private multi-plant concerns do achieve a reasonable allocation of both working capital and internal costs.

Lastly, therefore, there must be a built-in system of strict financial control to ensure that the criterion is in fact carefully and rigidly applied. We outline in Chapter 13 our proposed reorganisation of the two Wholesale Societies. But whatever their exact organisation, it must embody one essential principle and one essential department. The principle is that each production (and wholesale) division keeps its own separate accounts on the basis of an accurate allocation of working capital and transfer costs. The department is a central audit department with the right at all times to examine the books and transactions of each division, and to report to the Board on what use is being made of the capital allocated to it. Only then will it be possible to ensure the most beneficial allocation or re-allocation of capital amongst competing uses.

Chapter 12

THE MERCHANDISING AND WHOLESALING FUNCTIONS

I. THE ROLE OF THE WHOLESALER

Two changes have occurred in the role of the wholesaler in recent years ; and both have affected the Co-operative Wholesale Societies equally with private wholesalers. The first is that the large retail unit, whether a multiple shop organisation, a department store, or a large Co-operative retail society, has increasingly tended, as it has grown in size, to dispense with the services of a separate wholesaler and to deal direct with the manufacturer. This is not because the wholesale function as such is necessarily less important ; but a retail organisation of more than a certain size no longer needs a separate wholesaler to perform it. Its own buying power enables it to secure from the manufacturer prices as favourable as the wholesaler can obtain ; and it is fully competent to carry out for itself the traditional wholesale task of holding stocks, breaking bulk, and gaining information about sources of supply.

Thus the large retail organisation has partly replaced the independent wholesaler, and integrated the wholesale function into the retail process. In the Co-operative Movement this change is reflected in the decline, as compared with before the war, in the percentage of retail societies' supplies which are obtained through the Wholesale Societies, and in the fact that this percentage is lower for large societies than for small.

At the same time, however, as the large retailer has become less dependent on the wholesaler, the small retailer has become more so. This is because he can no longer face the intensified competition of the multiples, the department stores and the large Co-operative societies unless he too can gain the advantages of scale which they possess. Since he evidently cannot gain them on his own, he must gain them by voluntarily attaching himself to a larger organisation. That is, he must join with other small retailers to set up, or make use of, a large-scale organisation which will perform for him those services which the central headquarters of (for example) a multiple shop organisation performs for its individual shops.

It is increasingly to the wholesaler that he looks for these services. He will not be satisfied to-day with a wholesaler who merely

carries out the traditional functions of the wholesaler of the past : passively to accept orders from the retail units, to bulk them, place them with manufacturers, receive the goods, break bulk, finance the holding of stocks, and deliver as required to the retailer. He now expects something more than this passive role of an intermediary. In particular he needs, in addition to the traditional warehousing and stock-holding function, an organisation which can match the buying power and expertise of the large retailer, and so can offer him a range and quality of merchandise equal to that of his larger-scale competitors.

In response to this need, a new type of wholesaler has arisen, and has rapidly gained ground both on the Continent and in the U.S.A. In some cases a new organisation altogether has been created, such as the voluntary chains, the retail buying groups, or the retail-owned "co-operatives" ; in other cases existing wholesalers have adapted their policies and outlook to the new requirements.

But whatever the form of organisation, the underlying principle is the same. The passive role of intermediary between retailer and manufacturer gives way to a more positive and dynamic role. To the traditional functions of warehousing and order-collecting is now added in particular the function of expert and aggressive buying in advance of demand. And with the change of function comes a change of outlook. The wholesaler now sees his main objective as being to increase the *retail* sales of his retail customers ; his approach is one of active and positive collaboration with them in the task of improving their joint competitive position.

This change in the role of the wholesaler is now, after a slow start, rapidly spreading in this country ; and the last two years have witnessed the growth of new joint retail-wholesale organisations, both voluntary chains and retail buying groups. We may be sure that in two decades from now the picture in the distributive trades will be dominated on the one hand by the large-scale units—the Co-operatives, the multiple organisations, and the department stores—and on the other by chains of independent retailers organised in joint wholesale-retail groups.

These simultaneous but contrary changes in the position of the wholesaler must inevitably have a profound effect on the two Co-operative wholesalers. On the one hand, the tendency for the larger

retail societies to dispense with the services of a wholesaler and to deal direct with the manufacturer brings with it the risk of a continuing relative decline in the Wholesale Societies' trade—a risk, moreover, which will increase as the process of amalgamation develops. At the same time the smaller societies, in common with other small retailers, now require from their central organisation not merely the traditional warehousing services, but also a buying policy as dynamic and skilful as that of the central buying organisation of a large multiple.

Both these considerations appear to fasten attention on the buying and merchandising function. The degree of success with which this is performed will determine both the degree of purchasing loyalty of the large societies, which, although they no longer need a wholesaler for the warehousing function, will still buy through the Wholesale Societies to the extent, and only to the extent, that they can obtain better terms or better merchandise thereby : and also the competitive position of the small societies, which must continue to buy through the Wholesale Societies in order to gain the benefits of expert and large-scale buying.

We therefore now consider the requirements of a successful merchandising policy on the part of the Wholesale Societies. In the following section we consider those aspects of policy which are common to the merchandising of both private and Co-operative productions ; in subsequent sections we consider the specific problem of merchandising Co-operative productions.

II. THE REQUIREMENTS OF SUCCESSFUL MERCHANDISING

We believe that the first requirement is a major reform in the control structure of the Wholesale Societies, designed to lead to swifter decision-making and more positive management. We outline such a reform in the next chapter.

Next, we would urge a change in psychological attitude on the part of both Wholesale and retail societies. On the side of the Wholesale Societies, we have detected signs of a somewhat passive and defeatist attitude, symbolised by the constant appeals to retail societies' "loyalty". The impression indeed is occasionally given that retail societies are under some sort of obligation to buy from

the Wholesales, which may justifiably feel hurt and even offended if they fail to do so.

We do not think this attitude to be correct. No doubt societies would be foolish not to buy from the Wholesales, which they established and which they own, if the price (including dividend), quality, design and delivery-terms of the goods offered are equal to anything obtainable outside. But if they are not, the retail society is under no obligation to buy out of "loyalty" ; on the contrary, its first duty is to provide its own members with the best available goods irrespective of source. Loyalty to the national federations is an excellent thing, provided that it does not over-ride the first loyalty of a society to the ordinary Co-operative member. The two will not, of course, conflict if the goods offered by the Wholesale Societies are also the goods which the Co-operative member wants. If they do conflict, so that special appeals for loyalty are necessary, it proves that the Wholesale Societies are not providing the goods which the consumer wants. They were, after all, established to serve the interests of the retail societies and their members ; and they are failing in their primary duty if they need to be cushioned or protected by appeals to loyalty. We therefore think that less should be heard of loyalty to the Wholesale Societies, and more of service to the retail societies.

The corollary of this, however, is a change of attitude on the part of retail societies, some of which now expect unduly favourable treatment from the Wholesale Societies. The latter should not be compelled by traditional retail sentiment to adopt restrictive or uneconomic policies. If they are expected to provide a first-class competitive service, they must be permitted the same freedom of commercial action as their competitors, and not be made subject by retail societies to restrictive conditions and limitations.

Specifically, we recommend that the Wholesale Societies should alter their policy in the following ways. First, they should establish an open and generous system of volume discounts on all orders (including on goods which are invoiced-through). At present such discounts are given only on a negligible scale ; and their absence constitutes a serious neglect of prudent commercial practice. We advocate their introduction first because large orders are cheaper to fulfil than small ones, and it is right that the price to the retail society should reflect the actual costs incurred by the wholesaler ;

secondly because volume discounts will encourage the placing of larger orders, and hence improve the buying power and economy of operation of the Wholesale Societies : and thirdly because a point must otherwise come when retail societies, failing to obtain such discounts from the Co-operative wholesalers, will be driven, in the interests of their own members, to outside suppliers who do provide them.

Secondly, we recommend that the Wholesale Societies should vary their prices and margins broadly according to the actual services which they render. Thus when a society wishes to use them only as a buyer, and is prepared to do its own warehousing and breaking of bulk with delivery direct from the factory, it should be charged, not a full wholesale margin, but a small commission covering only the actual costs incurred by the Wholesale Society in the purchase. Conversely, a society which demands a full range of wholesale services, including warehousing, transport facilities, and breaking bulk down to a single tube of tooth-paste, should pay the full economic price for it. The Wholesale Societies should therefore adopt a rational system of differential charges varying according to the role which they fulfil. When they act solely as a purchasing agency, they should charge only a purchasing commission ; when they act as a full-line, full-service wholesaler, they should charge a full wholesale margin.

Thirdly, we think generally that the Wholesale Societies would be justified in seeking to introduce rather more order and discipline into the present somewhat anarchic system of retail society ordering. To be frank, we have the impression that they are now being somewhat "monkeyed about" by retail societies. This applies not only to the often farcically small size of order and the large numbers of "specials", but also to their willingness (under pressure) to hold stock, take back bad stock, accept varying and inconvenient delivery dates according to societies' accounting periods, and so on. It would be inappropriate in the Co-operative Movement, with its tradition of voluntarism and of unusually intimate and informal relations between buyer and seller, to attempt to impose excessively rigid compulsory obligations. But some obligations as to contract should be laid down : and the Wholesales should, in addition, use both differential prices and friendly persuasion to reduce the present laxity in their commercial relations with retail societies.

It will be seen that these proposals have two objects. One is to increase the efficiency of the Wholesale Societies as buyers and merchandisers by streamlining the process of retail ordering, enlarging the average size of order, and generally removing the restrictive handicaps under which they now operate. The other is to distinguish between the limited services now required by the large society and the full wholesaling function still required by the small one : to adapt the structure of charges to cover the actual costs of performing these respective functions : and so to prevent a desertion of the Wholesales on the part of large societies increasingly reluctant to be charged for services they neither need nor use, and to be saddled in consequence with a price-handicap as compared with their multiple competitors.

But objections may be raised. It is sometimes said, for example, to be a basic Co-operative principle that all societies should be able to buy the same goods at the same price. We have been able to discover no reason for treating this as an article of Co-operative faith. (And we notice that some societies which proclaim their own right to buy at uniform prices appear quite willing to sell to their members at prices higher than those ruling in other societies.) Uniform prices, when the costs of supplying the goods are different, must mean that some societies are paying more than cost and others less, so that the former are subsidising the latter ; and for this we can find no particular justification, Co-operative or otherwise. Why, indeed, should one society, which has no warehouse or which orders improvidently from hand-to-mouth, pay the same price as, and hence be subsidised by, another society, which does its own warehousing or orders efficiently in bulk ?

This is also part of the answer to the further objection that these policies would favour the large at the expense of the small society. We have sometimes felt that the large societies deserve rather more sympathy in the matter of charges than they are often accorded ; for, being normally situated in the main shopping-centres, they have to meet the full brunt of multiple competition. But in fact our proposals would in no way "favour" them, since they would, in common with all other societies, pay the actual cost of whatever services they received from the Wholesales ; they would merely cease to pay *more* than the actual cost. It is the small societies which are "favoured" by the existing system, since they now obtain goods at *less* than the

cost of providing them. For this we can find no sufficient argument either of Co-operative principle, for again it means that some Co-operators are haphazardly and unknowingly subsidising others : or of commercial wisdom, since it is the larger societies which typically face the most intense price-competition from private enterprise : or of efficiency, since the present system encourages driblet orders and uneconomic wholesaling methods : or even of prudence, inasmuch as the large societies, containing as they do the great majority of Co-operative members, may not indefinitely be willing to penalise this majority in the interests of a minority.

In addition to these changes in commercial policy, we recommend a further change in the sales *methods* of the Wholesale Societies. Our investigations and discussions have led us to the conclusion that the personnel of the Wholesale Societies are insufficiently "retail-minded". While buyers from the retail societies regularly visit the Wholesale depots, it is seldom that the Wholesale buyers visit the retail societies to get the "feel" of the trade, to see how merchandise is moving, and to exchange ideas with sales staff and customers. Yet these buyers are placing orders on behalf of the retail societies amounting to hundreds of millions of pounds each year. To buy on this scale without regular contact not only with sources of supply, but also with the process of retail selling, can only lead to mistakes, timidity and dullness.

It may be said that contacts with the retail buyers are already adequate. But this is not, in our view, enough ; for if the Wholesale buyers have contact only with the retail buyers, and not with the actual selling process, they will cease to be buyers and become merely order-takers and order-placers. Again, it may be said that retail societies would object to the Wholesale buyers visiting their shops and talking to sales staff and customers. If this is true, it constitutes a deplorable indictment of the relations between the two wings of the Movement—due, perhaps, to past recriminations on both sides about loyalty. But if the Wholesale Societies make it clear that their sole concern is to increase the sales of the retail societies, this suspicion will surely disappear ; and retail societies will then appreciate that any action which increases the skill and the retail knowledge of the Wholesale buyers can only be to their own advantage.

We therefore recommend that the Wholesale Societies should adopt the system already commonly used in private trade, whereby buyers spend a definite portion of their time in retail stores, and prepare regular reports on their observations for the use of the Wholesale as well as of the retail societies.

We conclude this section by discussing an existing practice of the Wholesale Societies which arouses sharp controversy : namely, "invoicing-through". We refer here not to the invoicing-through which arises from the normal trading practice of some suppliers (in those industries, for example, where wholesale trading is still the regular pattern, and direct dealings between manufacturer and retailer are rare), but to the exclusive contract specially negotiated between the Wholesale Society and a supplier, under the terms of which retail societies must invoice all supplies through the Wholesale Society and are debarred from dealing direct with the supplier. We have been surprised to find a strong feeling against this practice, amounting almost to resentment, amongst the larger societies, which evidently suspect that it often puts them in the position of receiving supplies at less favourable terms for given quantities, even adjusting for the Wholesale dividend, than their competitors are obtaining or than they themselves could obtain if they were able to buy direct.

Invoicing-through is a regular practice in the distributive trades. Its justification is that two retail units can buy better than one, and a hundred can buy better than two. In the Co-operative Movement it should represent a classic example of the advantage to retail societies of bulking their demand through the Wholesale Societies. Of course certain conditions must be fulfilled. First, the Wholesale buying must be skilful and efficient. Secondly, the Wholesale Societies must not impose an invoicing-through charge which is excessive considering that once the contract is made, the large society itself does the actual ordering and wholesaling, leaving the Wholesales with only a minor accounting responsibility. Thirdly, the large society must be able to obtain the same volume discount as it could obtain if buying direct. If these conditions are fulfilled, the large society should be (at the very least) no worse off, and the small society better off.

The Wholesale Societies claim that this is in fact the case ; the larger retail societies often deny it. Unfortunately no one can judge between them, as the actual terms of invoicing-through agreements are

wrapped in secrecy. If the Wholesale claim is justified, we can see no reason for this secrecy, which acts only as a source of irritation and bad relations. We therefore recommend that the Wholesale Societies should be willing to make known to retail societies the terms of the agreements.

III. THE DEMAND FOR CO-OPERATIVE PRODUCTS

We turn now to the specific question of the marketing of Co-operative productions, and of the right policies—for this is how the question has often presented itself in recent years—for keeping Co-operative factories fully utilised on long production runs.

The problem has recently been discussed under the heading “co-ordinated demand”. This phrase is perhaps rather misleading, since it conceals the fact that we are dealing with two different types of commodity. Some Co-operative factories are producing a standardised commodity essentially for stock ; here the size of the individual order matters comparatively little—the problem is less one of bulking or co-ordinating orders than of ensuring a sufficient total of orders, of whatever size and from whatever source, to keep the production units fully loaded. At the same time other factories are producing a wide variety of less standardised goods, not for stock but against specific orders ; it is here that we meet the problem of co-ordinating the orders of numerous different societies in such a way as to reduce the number of short uneconomic production-runs and thus enable the factories to produce at lower cost.

But although these problems are logically distinct, they are of course intimately connected. For example, a factory may have at the same time too many small uneconomic orders, yet too few orders in total to allow of full utilisation. But if it could reduce the number of small uneconomic orders, and so lower its costs by more economic production, the resulting lower prices might attract a larger total volume of orders, and so permit a fuller degree of utilisation. We may thus legitimately treat together the problems of ensuring a sufficient *total* volume of orders, and of co-ordinating demand in such a way as to produce larger and more standardised *individual* orders.

We start by discussing in this and the next section what responsibilities in the matter should rest on the retail societies ; and in

later sections we discuss the respective responsibilities of producer and wholesaler.

The impression is sometimes given by those concerned with the production units that both the basic causes and the essential remedies of factory under-utilisation are to be looked for at the retail end of the Movement. We would certainly accept the view that there are many changes at the retail end, desirable in any event and already recommended by us on other grounds, which would have the incidental effect of ameliorating the position of Co-operative factories. Any improvement in the number and quality of retail outlets would tend to increase the demand for Co-operative products, even though one cannot say in what exact proportion ; while an expansion of outlets on the scale envisaged in Chapter 9 could revolutionise the situation. A rapid process of amalgamation into larger units, such as we suggested in Chapter 6, would reduce the number of separate buyers, increase the average size of order, and so diminish the problem of driblet orders and excessive variety. The formation of national chains would similarly help to bulk and concentrate retail orders in the trades concerned. Perhaps as beneficial as any single reform would be the introduction by all retail societies of a uniform and up-to-date system of stock-control ; it is unfair to expect Co-operative factories to anticipate demand when the retail societies themselves often scarcely possess the necessary data on sales and stocks. One further responsibility might be said to rest on retail societies—the negative one of not expecting the production organisation to manufacture any and every commodity which they may want to stock, and to match any and every private product which happens to catch their fancy.

But should there also be an explicit obligation on retail societies to be “loyal” to Co-operative productions, and, by deliberately giving them preference over other goods, to accept the ultimate responsibility for keeping the factories prosperous ? We made it clear above that we were not in sympathy with the “loyalty” approach to these matters. The first duty of a retail society, in our view, is to the ordinary Co-operative member ; it is to give that member what she wants, and not what the society or anyone else may think she ought to want. If she chooses to demand non-Co-operative goods, it is the society’s duty to provide them.

Certainly, if the consumer specifies no particular brand of a commodity, and if price and quality are fully equal, the retail society will feel a natural ideological obligation to push the Co-operative brand ; and it has a strong commercial incentive to do so in the shape of the Wholesale dividend. We may concede at once that there are still a large, though probably diminishing, number of goods in respect of which brand-consciousness (as measured by the extent to which a particular brand is specified either in oral or written orders) is weak. In such cases the retail society should not merely stock the Co-operative brand, but it should train its assistants automatically to offer it and should give it pride of place in self-service display ; indeed in certain cases it might legitimately go even further, and stock only the Co-operative brand. Even when brand-consciousness is strong, it is often confined to (say) one or two well-known private brands ; a society then has no need to stock other little-known private brands for which no demand exists, but may reasonably offer only the Co-operative brand on those occasions when no brand is specified. These are cases where Co-operative products can be loyally supported with no risk that the consumer will be discontented, or that Co-operative sales will be lost because she goes elsewhere in search of her chosen brand. If the support is not forthcoming in such cases, as often it is not, Co-operative producers have a legitimate grievance against the retail societies, which indeed are then showing commercial incompetence as well as "disloyalty".

But beyond this we should not be prepared to go. If Co-operative members express a preference for non-Co-operative goods, retail societies are under an obligation to satisfy them. If the Co-operative factories producing similar goods are under-utilised, the responsibility then rests squarely on the producer ; either his price, or his quality, or his advertising outlay, or his sales techniques, or his choice of product, is at fault. He should not then try to evade his responsibility by appealing to societies to ignore the declared preferences of Co-operative members.

IV. BUYING PANELS AND GROUPS

We next consider how much responsibility should rest on retail societies for voluntarily bulking their orders amongst themselves. We must here examine the machinery which has recently been established on retail initiative to co-ordinate retail demand : namely, the

buying panels of the National Co-operative Managers' Association and the regional buying groups.

We applaud the motives which led to the formation of the N.C.M.A. panels, and the voluntary endeavours which have subsequently sustained them ; and we understand that in certain lines they have had some success in bulking demand and making possible lower factory prices. Yet this success has been on a scale which is insignificant in relation to the Movement's total dry goods trade. The total volume of business conducted in panel lines is relatively very small ; many of these lines were comparatively successful already ; and the great majority of Co-operative dry goods productions, including all fashion lines, are still untouched. Nor is there much sign that the trend of panel activity is sharply upwards.

We believe that this relative failure is due to basic weaknesses in the system itself. First, it is a voluntary and representative system. Only a very small minority of societies can have members on each panel ; and the success of the panel's selection depends entirely on the voluntary support of the great majority of buyers who themselves have no voice in the selection. Often this support is not forthcoming, whether for good reasons or for bad ; and the actual volume of orders has been far below that estimated by the panel. In addition, the large societies, which account for the great bulk of the Movement's dry goods demand, appear not to be enthusiastic about the method of choosing panel members by the vote of the other buyers ; and indeed such a method could not necessarily be relied upon to throw up the best buying talent available in the Movement.

Lastly, the system is inevitably most unwieldy. A representative panel of elected buyers, gathered (in most cases) from all parts of the country, relying mainly on the circulation of samples, and trying to satisfy the whims of hundreds of other buyers, must be a somewhat ponderous instrument for a dynamic buying policy ; so cumbrous, indeed, that it is hard to imagine that any commodity panel could ever deal with more than a small fraction annually of the lines in its own trade.

We have concluded that these weaknesses are fundamental, and that the panels can therefore never make a major contribution to the solution of the Movement's production difficulties. They may have a certain role to play while other solutions are in course of preparation ; but it will scarcely be more than a marginal one.

The regional buying groups which have been established in some parts of the country have a number of natural advantages over the panels. They are smaller and more compact units, and so can meet more frequently and deal with a wider range of goods. All the buyers concerned normally sit on the buying committee ; they are therefore all personally committed to the chosen lines, and the group can give the producer a fairly firm estimate of the total quantity required. And since the member-societies are usually close together, stock can sometimes be transferred from one society to another, and one of the advantages of multiple shop organisation thus attained.

Nor have we been persuaded by some of the criticisms which we have heard levelled against these groups. It is said, for example, that in certain cases the main object has been not to keep Co-operative factories fully utilised, but to obtain lower prices from any manufacturer, whether Co-operative or private, by bulking demand ; this, however, seems to us a wholly legitimate objective. It is said that the groups encourage "undesirable" competition between C.W.S. and C.P.F. factories ; but if this is so, it is an argument not against the groups, but for better voluntary co-ordination between the production organisations. It is said that the groups are exclusive to societies in a particular region, and that other societies are debarred from joining ; no doubt this is true, but it is essential to their compactness and flexibility ; and in any case the natural remedy for societies which feel excluded is surely to form similar groups in their own areas.

The regional buying groups can, in our view, sometimes perform a useful function. They can help to bulk demand, provide information about retail requirements, exchange knowledge about sources of supply, and exert a legitimate retail pressure on producers ; and because of their compactness they can do these things more effectively than national buying panels.

Nevertheless, we believe that their function should be a minor one. In the last resort, the responsibility for co-ordinating demand in general, and demand for Co-operative products in particular, must rest with the wholesaler or producer ; it cannot be sloughed off on to the retail societies. If it were to be, the Movement would need not only a complete chain of buying groups, covering the entire

country and each with a production and wholesale representative on it—that might conceivably be a useful contribution to the limited objective described in the last paragraph ; but it would also need a new central organisation to co-ordinate the buying decisions of the various groups. This would duplicate, in the most wasteful fashion, the function and organisation of the Wholesale Societies. Indeed, we have the impression that many of those most closely associated with the groups would concede that it was not properly the responsibility of the retail units to co-ordinate demand ; they would claim, rightly or wrongly, that they had attempted to do so only because the Wholesale Societies appeared to be unwilling. Some supporting evidence for this is perhaps to be found in the fact that a minority of individual Co-operative factories have been fully able, without assistance from groups or panels, to attract large orders, keep their factories loaded, and sell their goods at highly competitive prices.

There is a further reason why buying groups can never be more than a partial answer to the problem of selling Co-operative goods. They are essentially concerned with co-ordinating the demands of many different buyers in order to permit longer production runs on a smaller variety of lines. But this need, as we suggested above, is relevant only to a minority of Co-operative goods. In most dry groceries and many dry goods lines, where production is for stock and the commodity varies little from year to year, the number or size of the individual orders is comparatively unimportant from the production point of view. What matters is simply the total quantity ordered ; and this can be increased, not by any "co-ordinated demand" or pooling of orders amongst retail societies, but only by greater efficiency and enterprise on the part of the producer. It is only in the remaining dry goods lines, and notably textiles and footwear, that the question of co-ordination arises and that buying groups are relevant.

We therefore conclude that buying groups cannot be considered a basic solution even to the limited problem of "co-ordination", still less to the wider problem of increasing the sales of Co-operative productions generally. They may have a useful subsidiary role to play in the dry goods field as a "middle tier", interposed between producer and individual society, and rendered necessary by the existence of so many separate societies. Especially, they will have a temporary role, if our recommendations are accepted, while the

Wholesale Societies are carrying out the proposed reforms of their organisation and policies. Only experience can tell whether this will still be needed after these reforms are carried through.

V. THE RESPONSIBILITY OF THE PRODUCER

The major responsibility for the success of Co-operative production must, in our view, rest firmly on the production organisation, aided by successful merchandising on the part of the wholesaler. We have already suggested in section II how the general merchandising policy of the Wholesale Societies might be improved. We now suggest how the specific merchandising problem of the Co-operative factories should be approached.

First, the radical re-organisation of the management and control structure of the two Wholesale Societies, which we propose in the next chapter, should significantly improve the calibre, initiative and enterprise of management at all levels. This will apply to the production units as well as to other departments ; and it should raise the average level of manufacturing and sales efficiency at least to the high level already reached by a minority of outstanding factories.

Secondly, the risk of under-utilisation will be greatly diminished if the choice of what to produce is made subject to a more systematic process of economic calculation than has sometimes been the case in the past. Naturally, if decisions to produce are taken without a rigorous examination of comparative costs and expected return on capital, either under the pressure of retail societies or from a nebulous feeling that the Movement should produce everything sold in Co-operative shops, it is only too likely that a proportion of projects will fail. If, on the other hand, as we proposed in the previous chapter, production decisions are based on a clear set of investment-priorities, themselves based on an accurate comparison of expected returns : and if, moreover, the decisions are biassed towards those products in which, for reasons also there explained, the Co-operative Movement has a natural advantage by virtue of its voluntary integration, then mistakes will be much less likely to occur. In addition, a severe pruning of the number of lines produced will permit a greater specialisation and a heavier concentration of managerial effort on the remaining lines. We recognise, of course, that any improvement from these changes must be slow to take effect. The Movement naturally cannot eliminate existing lines, or close down factories, or

switch them to other uses, in the twinkle of an eye. But as policy is gradually adjusted to these basic principles, the likelihood of economic runs and full utilisation will steadily increase.

Thirdly, the problem both of the total volume of demand and of short runs and dribblet orders will be greatly eased if a rational structure of charges, such as we have already advocated in respect of wholesaling, is also applied to the sales of Co-operative products. Specifically, quantity rebates should be openly given on a normal commercial scale ; the full economic price should be charged for small orders and " specials " ; goods delivered direct from factory to retail society should not carry a full wholesale charge ; and a greater discipline should be introduced in respect of dates of orders and delivery. Such policies will both help to retain the custom of the large societies which might otherwise be driven to private manufacturers in search (for example) of quantity rebates : and, by encouraging larger orders and less variety, make possible more economic methods of production and so lower prices to all societies, both large and small.

VI. THE RELATIONSHIP BETWEEN PRODUCTION AND WHOLESALING

Lastly, the position will be improved if there is, in each case, a clear understanding of where the responsibility lies for the successful merchandising of Co-operative products. For example, should decisions on what to produce lie with the buyers of the wholesale units, or the management of the production units ? Again, on which of the two units should be placed the ultimate responsibility for sales promotion and for keeping the factories fully occupied ? Bound up with this are the further questions of the right of the factories to sell outside the Movement, and the right of the buying units to wholesale goods which compete with Co-operative productions.

The essential need is to distinguish clearly between the role of the buyer and that of the producer. For these are very different ; and a buying organisation which is also responsible for a large number of production units is liable to suffer from a split personality. As a buying unit, set up with the one purpose of serving its retail outlets, its duty is to provide the most competitive goods which it can buy, regardless of their source. But as a producing organisation it feels a duty to favour its own productions ; and it falls into the

risk of favouring them regardless of whether or not they are competitive. This danger becomes the greater if, as is the case to-day in some Co-operative lines, factories are under-utilised and losses are being incurred. The temptation then becomes almost irresistible to forget the essential buying and merchandising duty, which is to maximise retail sales whatever the source of the goods, and to think only of keeping the factories going.

It is at this point that we observe a growing insistence on retail societies' "loyalty", and a reluctance to wholesale goods which compete with Co-operative productions. The consequence must eventually be either that societies begin to desert the Wholesales in order to buy the goods they want direct from private manufacturers, or that they remain "loyal" at the cost of failure to increase their retail sales; in either case a worsening of relations between retail and wholesale societies is to be observed.

These dangers can be avoided only if the "split personality" is exorcised first by a clear recognition that the buying and production functions are different, secondly by establishing the principles on which each function is to be performed, thirdly by establishing explicit criteria by which conflicts between them will be resolved, and fourthly by creating an organisation within which both functions can be efficiently performed.

Given the recognition that the two functions are different, the principles on which they should respectively be performed are fairly clear. The function of the wholesale and buying units is solely to serve the retail societies. If this requires them to wholesale goods which compete with Co-operative productions, they are under an obligation to do so—just as retail societies have not merely a right, but a duty, to buy non-Co-operative goods if consumers display a preference for them. The function of the production units, on the other hand, is to keep their own factories fully occupied and to expand their sales to the greatest possible extent; and they must do this, not by making pathetic appeals to retail loyalty, but by generating maximum efficiency and then going out to fight to sell their goods. Moreover just as the retail societies are entitled to buy from non-Co-operative producers, so Co-operative producers have an equal right to sell to non-Co-operative customers; though if the choice of productions is dictated by the considerations suggested in

the previous chapter, the number of occasions when heavy outside sales are essential to the profitability of a factory should not be large¹.

There will, of course, be conflicts between the two functions—if, for example, a factory is under-utilised while the buying organisation is heavily engaged in wholesaling competing goods. Such conflicts should normally be resolved by the application of a uniform economic criterion, namely, return on capital. We recommended in the previous chapter that decisions within the field of production should be based on this criterion; the same applies to decisions between production and wholesaling. It again follows that each wholesaling unit, as well as each production unit, should keep separate accounts on the basis of a clear allocation of working capital and internal transfer costs, and that these should be subject to examination by the central audit department. Only in this way can the executive management form a clear picture of what return on capital each unit is earning. It is then in a position to allocate capital efficiently between competing uses, and to judge disputes between production and wholesaling units by reference to a uniform criterion.

Turning from the principles to the organisation, we need a structure which both recognises the distinction between the production and wholesaling functions, and provides a clear method of resolving disputes between them on the basis of this criterion. Some of us attached such overwhelming importance to the distinction between the two functions as to favour the creation of separate Production and Wholesale Executives under the top Management Board, with conflicts therefore settled at the level of the Board. Most of us, preferring to retain the traditional distinction between food and non-food, favour a series of vertical commodity divisions, normally embracing both a production and a wholesaling unit. A number of such divisions have recently been formed by the C.W.S. in the dry goods field, each controlled by a three-man executive consisting of a production, a merchandising and a sales officer. We should prefer to see one man, and not a committee, in charge of each division; but otherwise we should like to see the principle of commodity divisions extended throughout both the Wholesale Societies. Conflicts between

¹But Co-operative producers should certainly be released from irritating restrictions, now often imposed upon them by retail societies, such as not being permitted to sell their products to their own employees because the local retail society demands a monopoly of Co-operative sales in its area. This is an indefensible restrictive practice.

wholesaling and production policy would then fall to be resolved in the first instance by the head of each division, with no doubt a right of appeal, in especially difficult cases, to the responsible executive board¹.

Within these general principles, the detailed merchandising policy for Co-operative products will naturally vary with the commodity. Thus in the case of basic processed or imported foodstuffs, the distribution of which is already characterised by a high degree of vertical integration, the sales responsibility most naturally rests with the producer or the importer ; since, moreover, these are "natural" Co-operative lines in which Co-operative brands sell readily, there will usually be little need to wholesale competing brands.

At the opposite extreme, in the case of fashion goods it is normally the manufacturer who alone both creates the goods and ultimately sells them by a mixture of quality, reputation, and judicious advertising ; here it would be natural for the production unit to have the major responsibility for sales, whether through the wholesale unit or direct to the larger societies. In many non-fashion dry goods, on the other hand, specification buying by an alert and dynamic wholesaler, in close touch with the retail side and able to plan large orders, may offer the best opportunities ; here the main responsibility both for deciding production policy and selling the goods might rest with the wholesale unit.

In the case of heavily-branded merchandise, the picture might be different again. Where a Co-operative brand is also produced, the production unit might be assumed to be entirely responsible for advertising and promoting its own brand ; but since non-Co-operative brands may also be demanded by the consumer, the wholesale unit should be neutral between the Co-operative and private brands, and freely wholesale the latter in the interests of increasing retail sales.

A further distinction will naturally be made between sales to the large and the small society. The large society may increasingly wish to buy direct from the factory without the intervention of the wholesaler ; the small society will continue to need the wholesaler both

to bulk its orders and to select merchandise on its behalf. But again the extent to which direct buying increases will vary between commodities.

Other questions which require *ad hoc* decision are the scale of advertising expenditure, and the advantage to be gained from branding goods produced by private manufacturers. About the latter, nothing can be laid down in general terms ; each individual case must be decided on its merits. The same applies to the exact scale of advertising expenditure on particular commodities. But here something can also be said in principle : namely, that heavy advertising will often be a condition of the success of Co-operative production. It is of no use to rail against such expenditure on ideological grounds ; whether we like it or not, it must be incurred if Co-operative goods are to compete with private goods. Nor indeed is it always "socially wasteful" expenditure, as is still often assumed in the Co-operative Movement. On the contrary, if it leads to higher sales, and hence to a greater volume of production, and hence to lower unit costs and prices, it confers a positive benefit on the final Co-operative consumer. But exactly how much advertising should be undertaken for each commodity, and whether by the wholesale or the production unit, is again a matter for case-by-case decision.

It will be seen that we mention these various alternative policies solely by way of illustration, and not in order to lay down the respective roles of the wholesale and production units for individual commodities. These can be decided only by the executive management of the Wholesale Societies. We wish mainly to emphasise that the responsibility for merchandising and sales promotion must in each case be placed explicitly on one or other unit ; and that the unit concerned must then fulfil it, without either expecting or demanding special consideration on grounds of loyalty, by the exercise of its own initiative and ingenuity. The result might be a considerable release of stifled enterprise, and a greater vigour in seeking and pressing sales.

¹For the details of the proposed boards and executives, v. next chapter, section II.

Chapter 13

THE CONTROL OF THE NATIONAL FEDERATIONS

I. THE BOARDS OF THE WHOLESALE SOCIETIES

The system of management of the two Wholesale Societies is, at first sight, a somewhat surprising one, being distinctly unorthodox by either Co-operative or outside commercial standards. Its conspicuous feature is that the democratically-elected lay Board also has full-time managerial responsibilities. This is unusual, not only in industry generally, but also in the Co-operative Movement. Normal Co-operative practice, as exemplified in the retail societies¹, most federal societies, the productive societies, and the agricultural societies, is for the elected committee to be part-time, confining itself to the essential democratic function of ultimate supervision and control, and for the full-time day-to-day management to be delegated to professional officials. The system which operates in the Wholesale Societies is thus something of an exception.

We have formed the opinion that this system is not, under present-day conditions, appropriate. It inextricably confuses two functions which should be clearly distinct—those of democratic control and professional management. Both the character of the collective body and the personal qualifications required for carrying out these two functions must be profoundly different. A democratic representative Board in a business organisation should normally be part-time, as in fact it is in most Co-operative bodies. It can and should be largely lay in composition. It is proper, in its selection, to pay due regard to the need for a fair balance between the different interests represented; thus in the C.W.S. elections are on a Sectional basis, while in both England and Scotland we find a natural desire to maintain a balance between ex-directors and ex-officials, large and small societies, and so on. And the personal qualifications required are those not of the technician or the expert, but of the intelligent layman.

An executive managerial Board needs to possess an almost opposite set of characteristics. It must be full-time. It should be wholly professional in character. No regard should necessarily be

paid in its selection to maintaining a representative or geographical balance of interests. And the personal qualifications required are professional ability and experience of the techniques of large-scale management.

It is thus evident that a Board elected on either one set of principles could easily be ill-adapted to carrying out the other set of functions. A democratic Board, if fairly chosen on a representative basis, might well be unsuitable to manage. A managerial Board, if carefully chosen for ability, will not necessarily be representative.

No doubt the confusion mattered less in the past, when the Wholesale Societies were smaller and management techniques more primitive. But to-day, when not only are the Wholesales amongst the largest commercial concerns in the country, but also, as we pointed out in Chapter 5, the nature of modern management has itself undergone a profound change, both efficiency and democracy must suffer if the confusion persists. All that we said on this subject in Chapter 5 with reference to retail societies applies with even greater force to the Wholesale Societies. On the side of efficiency, the scale, complexity and technical intricacy of modern business call increasingly for expert, specialised and technical control; the layman, however gifted and hard-working, is no longer adequate. The full-time management of a large concern, with a vast annual turnover and simultaneously engaged in production, wholesaling, and even retailing, must therefore be vested in a technical Board chosen solely on grounds of professional ability, and not in a predominantly lay Board elected on a representative basis.

We are aware, of course, that the Wholesale Boards do include a number of ex-officials, mainly of retail societies; and these, like their colleagues, have rendered excellent service. But this does not quite meet our point. By no means all the ex-officials have had previous experience of large-scale management, many of them being drawn from small or medium rather than large societies; and even fewer have had experience of large-scale production or wholesaling. Moreover, we do not have the impression that the ablest retail society officials are always ready to stand for election. Nor, if they did, would they be certain of being chosen; for a system of election tends to confer an advantage, not necessarily on candidates with the best professional qualifications, but rather on those whose previous station has allowed them to gain public prominence in the Movement. This is not said in criticism of any individuals, since it may

¹With two well-known exceptions.

well be quite reasonable in the case of a representative lay Board. We wish only to emphasise that there is no certainty, even though a proportion of ex-officials, many of outstanding quality, is regularly elected, that the Boards will have the characteristics described above.

The present system also fails, in our view, to fulfil the essential requirements of democratic control. We have found that the elected Directors are often so immersed in detail, so harassed by constant meetings and journeys both at home and abroad, so diverted by a host of semi-political obligations, and so distracted by the multiplicity of their responsibilities, that they have insufficient time to sit back and think, and to debate and scrutinise the overall policy and future prospects of the organisation. Thus what should be the essential role of the democratic element, namely, general supervision of major policy, tends paradoxically to go by default precisely because the organisation is too *nominally* democratic. The reality of control is lost ; and the appearance of it is deceptive. The elected and representative body should be absolved from the tasks of day-to-day management, which are strictly irrelevant to the question of control, and be freed to carry out the task of ultimate supervision.

A reform which made an explicit distinction between the function of management and that of democratic control would thus be in the interests both of democracy and business efficiency. We now sketch the outlines of such a reform.

We discuss first the function of democratic control. This should, in our view, be exercised in each Wholesale Society by a representative body elected in the same way as the existing Boards, and called the Supervisory Council. To begin with, the Council should consist of the existing Directors of the Wholesale Societies, who would continue on a full-time basis and be given special responsibilities which we describe in section III below. But as vacancies on the Council occur, they should be filled by electing only part-time members¹. Thus in the long run the Council would, apart from the President, be part-time in character ; and, in any event, it should explicitly renounce the responsibilities of active management, and confine itself to the supervision of major policy.

The specific functions of these Councils would be as follows.

¹ One of our number, Mr. Pette, considers that even in the long run the Supervisory Council should be full-time in character.

First, they would appoint the members of the full-time professional Management Boards which we describe below, and determine their salaries and conditions of employment. They would also appoint the Boards of the most important subsidiary organisations, such as the C.I.S. and the E. & S. Joint C.W.S.

Secondly, they would receive and scrutinise detailed and regular reports and accounts from the Management Boards.

Thirdly, their sanction would be required for all major policy decisions, such as capital expenditure of over a certain amount or decisions to undertake or abandon a major line of production, and for the appointment of the subordinate Executives which we describe below.

Fourthly, they would represent the production and wholesaling wing of the Movement on all representative and political occasions, such as Congresses at home and abroad, fraternal delegations, occasions of a ceremonial or governmental character, and so on.

Fifthly, they would in particular perform a liaison and public relations role as between the retail wing, and the production and wholesaling wing ; and they would seek systematically to represent to each the views and suggestions of the other.

Their role would thus be primarily a trustee and supervisory one, exercised on behalf of the member-societies. The fact that they are released from the burden of detailed management should ensure that the supervision is considerably more effective than it has sometimes been in the past.

On points of greater detail, we make some tentative suggestions, less to establish rigid formulae than to delineate the broad picture which is in our minds. We think that the Council should normally meet monthly. Although its members would be part-time, there should be a full-time President who would also take the chair at formal meetings of the Management Board described below. And, in view of the vital importance to the member-societies of this supervisory function, we think that there may be a case for enlarging the size of the Councils beyond that of the present Boards—for example, by electing 6 new members to the English Council. The tasks of supervision and liaison, unlike those of active management, can often best be performed by a comparatively large body.

II. THE MANAGERIAL BOARDS AND EXECUTIVES

We turn now to the full-time professional management. At the top, appointed by the Supervisory Council and accountable to it, there should be a central Management Board responsible for the organisation as a whole. Beneath the Management Board and responsible to it, there should be a Finance Executive, a Food Executive, a Dry Goods Executive, and a group of central Divisions¹. We should not like to lay down the number or nature of the central Divisions in detail, since this is a matter for technical discussion. But, for purposes of illustration, there would no doubt be a Secretariat, a Technical Services Division, a Retail Liaison Division, and (in the C.W.S.) an Agricultural Division.

The composition of the Management Board might then be as follows: (i) the President of the Supervisory Council as Chairman, (ii) the Chief Executive Officer of the whole organisation, (iii) the Deputy Chief Executive Officer, (iv) the Chief Executive Officer of the Retail Development Society (for reasons discussed in section IV), (v) the chief officials of the Secretariat, Technical Services and Agricultural Divisions, (vi) the General Managers of the Finance, Food and Dry Goods Executives, together with their deputies. This would give a total of a Chairman and 12 members, which we would regard as the maximum desirable size for a Board of this kind.

The functions of the Board would be similar to those of the Board of a large nationalised or private concern. Specifically, they would be to appoint (subject to the ratification of the Supervisory Council) the members of the three Executives, to approve the annual operating plans and capital expenditure budgets of the subordinate Executives and Divisions, to formulate major policy proposals, and to submit regular reports to the Supervisory Council. The Board as such (that is, as opposed to its individual members in their functional capacities) would not be concerned with technical management; and the danger of becoming too much immersed in detail should be avoided by accepting the principle that all departments report only to their respective Executive or Divisional heads, and never direct to the Management Board.

¹As we pointed out in the last chapter, some of us would have preferred Production and Wholesale Executives to Food and Dry Goods Executives. But we sketch the organisation on the assumption that the division between food and dry goods is retained.

A few comments may be in place on the suggested central Divisions. The Secretariat (under a Secretary whose office would now be separated from that of the Chief Executive Officer) and the Technical Services Division would between them control all the common services—advertising, public relations, market research, building, engineering, technical research, etc. The Retail Liaison Division, and its relation to the proposed Retail Development Society, are discussed in section IV.

Our reasons for suggesting a separate Agricultural Division in the C.W.S. are as follows. Agricultural Co-operatives, which now number 338 in England and Wales and have a total annual trade (including produce marketed) of £130 millions, form a specialised group of societies dealing in commodities—animal feeding stuffs, fertilisers, seeds, machinery and implements, etc.—wholly different from those handled by the retail societies. The nature of their trading contact with the C.W.S. is consequently also different; while the trade itself requires a specialised knowledge and expertise. Moreover, being geographically scattered and heavily outnumbered by the consumer societies, the agricultural societies cannot easily express their collective views on C.W.S. policy or influence the way in which business is developed on their behalf; as a result, their interests tend to be neglected, and they fail to develop a full sense of responsibility to the C.W.S. in spite of their substantial shareholding in it.

This weakness reflects itself in two ways. First, there appears to be a marked lack of co-ordination between the existing agricultural departments of the C.W.S. and other departments, such as those dealing with horticulture, provender milling, motors, hardware, etc., which also wholly or partly serve the agricultural societies. Secondly, although the combined trade of these departments is probably in the region of £35 millions, this represents only 40% of the trade of agricultural societies in these lines. Indeed since the agricultural Movement has been growing relatively faster in the last 10 years than the consumers' Movement, the potential trade may be even greater than these figures suggest. The share of agricultural Co-operatives in the supply of basic agricultural requirements in this country may be 15% or at most 20%; in many European and overseas countries it is 50-60%. There is thus the possibility of a large expansion in the agricultural trade of the C.W.S. But if it is to be

fully exploited, we believe that a central Agricultural Division will prove essential.

Turning to the three Executives, the Finance Executive might be composed as follows: the General Manager of the Executive, his deputy, the Bank Manager (assuming that the Banking Departments remain for the present internal), the Manager of the new Investment Division proposed in Chapter 10, the Chief Accountant, an official responsible for the share and loan accounts of member-societies, and (not of course subordinate, but in a liaison role) the General Manager of the C.I.S. (or his deputy in Scotland). The functions of the Executive would be, not indeed to allocate capital, which is the responsibility of the Management Board, but first to supervise and co-ordinate the supply of capital, and secondly to operate the necessary budgetary controls on the use of capital by the other Divisions and Executives.

It will be seen, especially in the light of the proposals made in Chapter 10¹, that a considerable proportion of the Movement's capital resources will come within the purview of the Finance Executives—indeed, all the capital resources which are capable of central mobilisation. It will then be the responsibility of the Management Board, acting on the principles laid down in Chapter 11² and subject to the final approval of the Supervisory Council, to allocate this capital as between production, wholesaling, the Retail Development Society, and other subsidiary activities.

We do not propose to advise in detail on the membership or organisation of the Food and Dry Goods Executives, regarding this as a responsibility of the new Management Boards. But they might be composed roughly as follows: (i) the Chief Executive Officer or Deputy Chief Executive Officer of the whole organisation, (ii) the General Manager of the Executive, (iii) his deputy, (iv) the heads of such technical sections (for example, finance, or sales, or research) as may be found desirable, (v) the heads of the main product divisions, or groups of product divisions, organised along the lines suggested in the previous chapter³. But whatever the exact composition, the Executives must be kept to a manageable size—say, within the range of 8 to 14 full-time members.

¹ section V.

² sections V and VI.

³ section VI.

We also recommend that the Food and Dry Goods (though not the Finance) Executives should contain, in addition to their full-time members, a proportion (say, 3 or 4) of part-time members drawn from chief officials of retail societies. These would be appointed by the Supervisory Council, which would take into account both professional ability and the need to obtain a cross-section (though not necessarily a geographical one) of retail opinion. They would contribute useful outside experience and advice, facilitate a closer co-ordination of production, wholesaling and retail policies on the technical level, and give an additional assurance to the retail societies that the production and wholesaling activities of the Movement in fact were, as they were originally intended to be, directed to serving retail interests.

These part-time members would not attend all meetings of the two Executives. We do not wish to suggest how often the Executives should meet; but clearly informal meetings might be held weekly, or even daily. The part-time members, on the other hand, would attend only (say) a formal monthly meeting, when either major policy decisions were under discussion or reports were being prepared for the Supervisory Council. This should make it possible for already busy chief officials to accept appointment.

We attach great importance to this innovation. Despite the fact that the Wholesale Boards are elected by the member-societies, despite the half-yearly share-holders' meetings, and despite the continuous informal contacts at conferences and elsewhere, we have found a singular lack of co-ordination of policy, and even a degree of mutual suspicion, breaking out sometimes into open recrimination, between the retail and Wholesale societies. Indeed we were taken aback, as our investigations proceeded, by the almost complete lack of harmony, both of policy and sentiment, which in certain directions appears to exist between these two major wings of the Movement. The retail societies seem to feel that the Wholesales have somehow slipped out of their control, and become aloof, monolithic organisations which threaten, rather than serve, their retail interests; the Wholesales for their part see themselves as disloyally deserted by the very parents who brought them into being.

We therefore cast around for a means of diminishing this mutual suspicion, and of binding the retail and Wholesale wings more closely together. We carefully considered the system which operates in some continental Movements, whereby a proportion of places on the

Supervisory Council or its equivalent are reserved to retail society officials ; but we concluded that it was both unnecessary and undesirable to mix the democratic and official levels in this way. Indeed it appeared to us that liaison and control were adequate on the representative or " committee " level, with fully democratic elections to the Board (or, in future, the Supervisory Council) and regular, well-attended members' meetings. What is lacking is a built-in constitutional liaison on the official or technical level. It is this which we hope to create by our proposal.

Lastly, we consider how and where the full-time members of the Management Boards and Executives should be recruited. This is not a matter on which one can lay down general rules, save for the crucial one that the selection must be solely by merit and ability. Naturally existing managers of the Wholesale Societies would have the right to apply for the new posts ; and so, we would add, would any existing Directors who, rather than continue as members of the Supervisory Council, preferred to take their chance on obtaining a managerial post. We should also envisage the appointment of some chief officials of retail societies or other Co-operative bodies ; and we believe that there is a clear case for some appointments from outside the Movement. The one essential principle is that the membership should be drawn from the best available material, wherever that may be found, so that a structure of management second to none may be created.

But the calibre of applicant will naturally be influenced by the salaries which are offered. This is a point on which we made our general position clear in Chapter 5¹. In our view, the salaries now paid to members of the Wholesale Boards are seriously inadequate when we consider the enormous turnover and the complex range of activities of these organisations. They are lower than those paid to the chief officials of many retail societies with an incomparably smaller turnover ; they are much lower than those now paid in the nationalised industries ; and our inquiries have shown that they are far below those paid for comparable jobs in the private distributive trades. The Wholesale Societies cannot compete on equal terms if they remain, as they are to-day, an enclave of niggardly remuneration. We therefore suggest that a first task of the Supervisory Councils will be to determine a scale of salaries for the top managerial posts

¹ section V.

which is more appropriate to the level of managerial ability required. We may be sure that it will be considerably higher than the scales which apply to the present Boards to-day.

III. THE PERIOD OF TRANSITION

As we have already intimated, we propose that the existing Directors of the two Wholesale Societies should constitute the new part-time Supervisory Councils. The change should involve no loss of salary or emoluments. Although we think that the change of name and function should be sharp and immediate, we do not propose that the existing full-time Directors should become part-time ; the transition in this respect should be accomplished by electing only part-time members as vacancies on the Council occur.

During the interval, while a substantial proportion of the Council remains full-time, we propose that the full-time members should form themselves into an *ad hoc* Reorganisation Committee, meeting more frequently than their part-time colleagues, and charged with the single task of supervising the various structural changes in the Wholesale Societies proposed in this Report. The size of this Committee should diminish, as vacancies amongst the full-time members occur, at roughly the same rate as the business of reorganisation is accomplished.

A complex transitional problem will arise in respect of subsidiaries or joint organisations on whose Boards Directors of the Wholesale Societies are now sitting. There is a large variety of such organisations, differing widely in size, purpose and character. No complete generalisation is therefore possible. But the greater number probably consists of productive enterprises which, from the point of view of managerial control, have basically the same requirements as the productive units of the Wholesale Societies themselves.

Where this is the case, it follows logically from our proposals that the Wholesale representatives on the Boards should be drawn, not from the Supervisory Councils, but from the full-time Boards or Executives. We think that this should be accepted as a general principle. Nevertheless, we do not want a simultaneous upheaval in all these organisations at the same time as the parent bodies are being reorganised. We therefore propose that the Reorganisation Committee mentioned above should examine them individually, and make *ad hoc* decisions on each case. In some cases the matter may

settle itself as a result of other proposed changes—for example, Co-operative Retail Services and National Co-operative Chemists if, as we have suggested¹, they eventually become the responsibility of the Retail Development Society. In other cases the issue may be resolved in a comparatively short period by the natural process of retirement. In yet other cases a change might need to be made at once to prevent a glaring confusion of authority. Each case should be considered on commonsense grounds, with a desire to smooth the difficult process of transition, but recognising that ultimately the Wholesale representatives should normally be the full-time executives in charge of the nearest corresponding activity within the parent organisation.

It may be appropriate here, although it is not strictly a problem of the transition, to discuss who should *appoint* the Boards of subsidiary organisations. In the case of the majority of comparatively small subsidiaries, we think that the Management Boards should make the appointments. But in the case of very large subsidiaries, and especially the important Anglo-Scottish ones, the Supervisory Councils themselves should do so. Thus in the case of the C.I.S., for example, we should envisage that a joint Finance Committee of the English and Scottish Supervisory Councils would appoint the Board, which would be drawn from the Management Boards or Executives of the C.W.S. and S.C.W.S., and no doubt mainly from amongst those officials with special financial responsibilities. This Board would have the same functions as, and would meet no more often than, the present Board of the C.I.S.; and it would be responsible to the Joint Finance Committee mentioned above. An analogous pattern might be suitable for other important joint organisations.

IV. THE CO-OPERATIVE RETAIL DEVELOPMENT SOCIETY

We now consider where the responsibility should lie for those retail activities which involve the active participation of the national federations. The main responsibility for retail development naturally rests with the individual local society. But we drew attention in Chapter 8 to a number of spheres in which local initiative requires to be supplemented by action at a national level. And, in particular directions, the action needs to be taken quickly. We need at once, and not in 3 years' time, a central body to plan the establishment of

¹v. Chapter 8, section IV.

national chains, provide new technical services to societies, and advise on local development projects.

How would this body be constituted? One obvious possibility is that it should be an integral part of the Wholesale Societies, controlled in each by a Retail Executive parallel to the Finance, Food, and Dry Goods Executives, and responsible, like them, to the Management Board and thence to the Supervisory Council; or, indeed, it could be responsible direct to the Supervisory Council.

This would have much to commend it on grounds of logic, finance, and administrative simplicity; and some of us think that it might be the ideal long-run solution. As against it, however, we must suppose that if our previous recommendations are accepted, the Wholesale Societies will be fully occupied for some time ahead with the reorganisation of their own management structure; and this may therefore not be the most judicious moment for imposing upon them large and extremely urgent new responsibilities in the retail field. Furthermore, there is a strong case for co-ordinating retail development over the whole country; and, assuming that the C.W.S. and S.C.W.S. remain, for the present, separate bodies, this would not be possible under such a solution. We must, in addition, accept the fact, as realists, that the present unfortunate mutual suspicion between the two wings of the Movement might for some time to come limit and handicap any fresh Wholesale ventures in the retail field. This suspicion will, we hope, be gradually dissipated; but the new retail initiatives are too urgent to wait on gradual long-run changes.

It was for these reasons, amongst others, that we proposed in Chapter 8 the establishment by the Co-operative Union and the two Wholesale Societies of a joint Co-operative Retail Development Society, responsible to a part-time Supervisory Council elected as to one-half by the Union's Central Executive and one-half by the Supervisory Councils of the two Wholesale Societies¹.

Naturally such a body would need to work in close liaison with the production and wholesaling organisations. Not only will co-ordination be required on numerous policy questions, but the retail body will rely for its capital largely on financial institutions controlled by the Wholesale Societies—the Banking Departments,

¹One of our number, however, Mr. Pette, considers that the Co-operative Union should not be associated in any way with the proposed Retail Development Society, whose Board should be appointed solely by the two Wholesale Societies.

the new Investment Divisions, and the C.I.S. Indeed it will be the Management Boards of the Wholesale Societies which determine the allocation of all that part of the Movement's capital which is centrally mobilised ; and the Development Society must participate in all discussions of this allocation in order that the requirements of retail development may be taken fully into account.

At the elected level, liaison will be ensured by the fact of joint membership between the Supervisory Councils of the Development Society and the two Wholesale Societies. On the managerial level, we propose that the Chief Executive Officer of the Development Society should be *ex officio* a member of the Management Board of the C.W.S., and his deputy, who should have special responsibility for Scottish affairs, of the Management Board of the S.C.W.S. The liaison would, in addition, work in the reverse direction ; for we recommended in Chapter 8 that the Board of the Development Society should include a number of part-time members, to consist of (say) six retail society officials, three members of the Management Board of the C.W.S., two members of the Management Board of the S.C.W.S., and the General Manager of the C.I.S. Both Wholesale Societies would establish a small Retail Liaison Division to service their representatives on the Development Society. These arrangements should ensure a fully adequate co-ordination between production, wholesaling and retailing activities.

V. THE RELATIONS BETWEEN THE C.W.S. AND S.C.W.S.

There has long been talk in the Movement of a possible amalgamation between the two Wholesale Societies ; and we expected to receive a great deal of evidence either for or against this proposal. In fact we have received scarcely any. In particular, we have heard little concrete or specific evidence in its favour. There is sometimes mention of the dangers of overlap and lack of co-ordination. But it has not been proved to us in detail that advantages of great significance would accrue from amalgamation, nor even that such advantages, supposing them actually to exist, might not be outweighed by the possible diseconomies of scale associated with a merger between these two already vast undertakings.

We concede that there is a tiresome overlap and duplication of effort in particular fields. But this does not seem so serious as to call for the extreme step of complete amalgamation. It can be dealt with in a considerably less radical manner. First, since it is mainly

apparent on the production side, a Standing Joint Production Committee of the two Management Boards could be set up to formalise and strengthen the *ad hoc* consultations which already take place.

Secondly, the solution in particular cases might be the establishment of jointly-controlled subsidiaries. Some such of course already exist—for example, the C.I.S., the E. & S. Joint C.W.S., British Luma, etc.—and have been shown to work well. We think the principle an excellent one, which might well be extended to other cases where co-ordination is required, but where the situation is not such as to demand the complete amalgamation of the two bodies.

Generally, the existence of separate English and Scottish Wholesale Societies does not appear to us to constitute one of the major weaknesses of the Movement ; and their amalgamation would have comparatively little relevance to the actual weaknesses as outlined in this Report. Naturally the Movement would be wise to keep the matter under review ; it might be that changed circumstances will, at some future date, strengthen the arguments in favour of amalgamation. But for the present the urgent task, in our view, is the re-organisation of each Wholesale Society separately along the lines discussed in this chapter ; and we should not wish attention to be distracted from this task by controversy over long-term "ideal" solutions.

VI. THE CO-OPERATIVE PRODUCTIVE FEDERATION

We make no specific recommendations as to the co-ordination or control of the productive societies affiliated to the C.P.F., regarding this as a matter for their own autonomous decision.

We believe, however, that most of our general recommendations relating to managerial efficiency and production policy are as relevant to the productive societies as they are to the wholesale or retail societies ; and they should therefore be taken, with suitable modifications where necessary, as applying equally to all three groups.

The main concern of the productive societies in recent years has been with the co-ordination of retail demand. Here again, all that we said on this subject in the previous chapter should be taken as applying equally to the C.P.F.—and notably our conviction that the main responsibility for keeping factories fully utilised rests not on the retail societies, but on the producer.

To the extent that regional buying groups are formed, minor though we think their role should be, we should hope that the C.P.F. would be associated with them ; and if, as we suggested in the last section, a joint Anglo-Scottish Production Committee is set up, the C.P.F. should be represented on it. But the quickest way of curing the production difficulties of the C.P.F. would, in our view, be to raise the average standard of factory and sales efficiency up to the high standard already attained by a minority of productive societies.

VII. THE POSITION OF THE CO-OPERATIVE UNION

The non-economic aspects of the work of the Co-operative Union clearly lie outside our terms of reference. Nevertheless the position of the Union also has a bearing on the economic problems which we were invited to consider ; and we have therefore felt it right to give some thought to the matter.

What will be the functions of the Union, if our suggestions are adopted ? The Central Executive will, of course, if it accepts our recommendation to this effect, have the immediate and urgent task of preparing, and presenting to Congress at the earliest possible date, a plan for the establishment of the Retail Development Society. Thereafter, the Union will lose the Trade Associations to the new Society. But (in addition to its political and educational functions) it will continue to control a number of departments (one of them altogether new and others, we hope, enlarged well beyond their present size) which are either non-trading in character, or serve the Movement as a whole, or are designed to assist Boards of Directors : Legal, Labour, Employment Advisory Service, Finance, and Research and Statistical.

Is this too untidy a solution : that is, would there then be too many separate national bodies at the top—the Union, the Development Society, and the two Wholesale Societies ? We have speculated a little on this matter, although we do not regard it as incumbent upon us to make specific recommendations.

In particular, we have considered the possibility of creating a new single body out of the Union Central Executive and the proposed new Supervisory Councils. Some of us feel that there are serious long-run arguments in favour of such a proposal. The fact that the Union and the Wholesale Societies now exist as separate

organisations perhaps encourages the sense of division and opposition in the Movement between retail and wholesale, and the attitude (on both sides) of "we" and "they." If there were a single national federation at the top, combining within itself at once the functions and the democratic representation of the retail, wholesale and production wings, the result might be a stronger sense of common purpose and a more harmonious co-operation.

The present separation has the further disadvantage that it creates uncertainty as to where retail societies should look for guidance and assistance. At present, they must look to the Wholesale Societies for some forms of aid (for example, for loans, bank accommodation, architects and building departments, etc.) and to the Union for others (for example, the services provided by the Trade Associations or the Research & Statistical Department). We have suggested that a number of central services to the retail Movement should in future be concentrated in, or channelled through, the joint Retail Development Society. But the very need for a joint body, with its attendant complications, arises only because of the separate existence of Union and Wholesales. It might certainly seem more logical to have one central body to which societies could turn for whatever form of aid they needed.

If this view were to be accepted, the Central Executive of the Union and the Supervisory Councils of the two Wholesales would fuse to form a single elected body which would constitute the national leadership of the whole Movement, discharging its united democratic power at the pinnacle, and responsible to an elected parliament of member-societies. The Secretariat of the Union would become a central Division of the new body, responsible for education, political matters, relations with the State, propaganda for the Co-operative ideal, etc.; and all the trading functions of the Movement would be carried out by a series of parallel professional Executives—Finance, Production, Wholesaling and Retail.

There is no doubt that this would constitute a strictly logical Co-operative structure. But we cannot disguise from ourselves that there would be formidable difficulties—legal, political, and constitutional—in the way of its attainment. Nor can we lightly dismiss the positive arguments in favour of a separate Co-operative Union—some of us, for example, feel that the retail societies need a body which (despite the representation of non-retail organisations on it) is seen

essentially as the guardian of retail interests. And, above all, there is a strong and natural feeling that the political and ideological aspects of the Movement's work should be kept largely distinct from the trading and business aspects.

But we for our part, in view of our terms of reference, have been most influenced by a severely practical consideration. Even assuming, for the sake of argument, that amalgamation between the Union and the Wholesale Societies were a desirable long-term objective as part of an "ideal" Co-operative structure, it is certainly not an urgent short-term necessity ; that is, its absence is not a major cause of the Movement's trading weaknesses which we were asked to consider. Moreover a fusion would be an immensely intricate and controversial operation ; and it is hard to believe that its discussion and accomplishment, riveting as it would the attention of all the ablest persons in the Movement, would not seriously delay the fulfilment of the far more urgent and immediate recommendations which we make in this Report.

The only circumstance which might cause us to recommend an amalgamation, or at the very least the transfer of all the economic and technical responsibilities of the Union to the Wholesale Societies, would be if retail societies so starved the Union, and through it the proposed Retail Development Society, of funds, that these bodies were unable to carry out the functions which we have proposed for them. In that event, rather than that these functions should go by default, the Wholesale Societies should accept the responsibility ; and, however vocal the opposition, they should establish their own Retail Executives to carry them out.

But assuming that retail societies play their proper part, we do not recommend that the Union and the Wholesale Societies should amalgamate. We believe that the Movement should first carry through the trading and structural recommendations proposed in this Report ; and that these should take precedence over all long-run constitutional questions. When this stage has been completed, the question of fusion can be examined again ; and it may be found that the arguments, both for and against, then look quite different. Indeed our final recommendation is that the Movement should formally re-examine not only constitutional issues such as this, but also its basic trading policies, at least once every decade.

Part V

Chapter 14

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

I. THE DIAGNOSIS

The Co-operative share of total retail trade is approximately 11%. This is scarcely higher than it was before the war ; and there has evidently been a marked slowing-down in the rate of Co-operative expansion. Before the First World War, Co-operative retail societies and the multiple shop organisations enjoyed about equal shares ; to-day the multiple share is almost double that of the Co-operative Movement. (Chapter 1, section II.)

The failure significantly to expand the Co-operative share of trade since before the war has been mainly due to the weakness of certain sections of the dry goods trade. Nevertheless the position in the food trades also gives grounds for some concern. The small increase in the Co-operative share of these trades as a whole has been almost entirely due to a spectacular expansion in the milk trade ; the share of the groceries, provisions, fish, fruit and vegetables, and household stores trades has declined. (Chapter 1, section II.)

Trade progress has also varied considerably as between regions. Between 1948 and 1955, the Southern, Midland, Western and Northern Sections increased their share of retail trade in their areas ; the North-Eastern Section barely maintained its share ; while the South-Western, Scottish and North-Western Sections actually lost ground. These variations in progress cannot be entirely attributed to variations in the initial degree of penetration. However, the greatest scope for further expansion still lies in the relatively under-developed Midland and Southern half of the country, and especially in the Greater London area. (Chapter 1, section III.)

The variations between individual societies are even more pronounced. Of the 97 societies with a turnover of more than £2 millions per annum in 1955, only 31 increased their share of retail trade in their area between 1948 and 1955¹, a further 31 failed to

¹As judged by a "norm" which is defined in Chapter 1, section IV.

hold their share by a comparatively small margin, while 35 lost a significant amount of ground. (Chapter 1, section III.)

The weaknesses described in the last three paragraphs are primarily due, so far as purely physical causes are concerned, to an inadequate number of dry goods outlets all over the country : an inadequate number of food outlets in the Southern half of the country : the faulty location of many dry goods outlets : and a maldistribution of outlets as between small towns (where there are relatively too many) and large towns (where there are relatively too few). (Chapter 4, sections I. and II.)

Turning to the wholesale picture, the Wholesale Societies appear to have maintained their position as general food wholesalers to the retail societies ; that is, the latter buy approximately the same proportion of their food supplies through the Wholesale Societies as they did before the war. But in non-food goods, and especially in furnishing, hardware and electrical goods, the Wholesale Societies appear to have lost ground ; and the retail societies now obtain a higher proportion of their supplies from outside the Movement.

The productions of the Wholesale Societies appear slightly to have increased their share of total retail society sales since before the war. But this is mainly due to the expansion of a number of processed commodities such as milk and meat. Manufactured goods as a whole do not appear to have increased their share ; and there has been a sharp decline in the share of footwear, furnishings, and hardware. As there has been a large increase in productive capacity since before the war, the consequence is that a number of factories are now seriously under-utilised. (Chapter 1, section IV.)

II. THE FRAMEWORK OF PRINCIPLES

We conducted our inquiry and made our recommendations on the assumption that Co-operative societies will continue to be organised on the following basic principles.

First, the democratic principle. Naturally the precise character of Co-operative democracy has altered with the growth in the size of societies and other technical and economic changes. The degree of member-participation is now much less ; and it is no longer feasible for the elected Board to undertake the detailed day-to-day management of a society. But we do not regard either of these changes as

destroying the reality of democratic control, provided on the one hand that the fraction of members who do participate is representative of the whole, and on the other hand that the elected Board concentrates, not on the minutiae of detailed management, but on ultimate supervision and control. (Chapter 2, section I.)

The second principle is that the distributable surplus belongs to the consumer, and accrues to him in proportion to his purchases instead of to the capital-holder in proportion to his share-holding. (Chapter 2, section II.)

The third principle is that of a fixed return on capital, carrying with it the consequence that private capital gains cannot occur in the Co-operative Movement. (Chapter 2, section III.)

The fourth principle is that of consumer-protection. This we define, however, in terms not of a purely negative duty to combat exploitation or the sale of adulterated goods, but of a positive obligation actively to promote the interests of the Co-operative consumer. A retail society should accept the following aims : to sell at prices which are never consistently under-cut by any major competitor : never to sell shoddy or untested merchandise, but only goods for which it is willing to accept complete responsibility : and to maintain the highest standard of shop-location, lay-out, appearance and service. The slogan should be that "nothing is too good for the Co-operator". (Chapter 2, section IV.)

We now summarise our main recommendations, dividing them for this purpose into two groups : first, our detailed recommendations to retail societies, the Co-operative Union and the Wholesale Societies respectively ; secondly, two major structural recommendations which we regard as the most central and the most immediate in our Report.

III. RECOMMENDATIONS TO RETAIL SOCIETIES

(1) Dividend and Price Policy

The traditional maxim—"sell at market prices and treat dividend as a residual"—is still in principle correct, provided that "market prices" are interpreted as being the prices of the most successful private competitors in each trade and each area. We recommend (1) that this should be the price policy of retail societies. (Chapter 3, section II.)

When deciding how the surplus should be divided between dividend and reserve allocations, societies should bear in mind that dividend is almost certainly less important as an inducement to trade than it has been in the past, while reserve allocations, in view of the smaller annual increase in members' capital, are very much more important as a source of funds for expansion and development. (Chapter 3, section III.)

We therefore recommend (2) that when faced with the choice between a small increase in dividend and an additional allocation to the reserves, societies should normally choose the latter. (Chapter 3, section III.)

Generally we recommend (3) that societies should seek to stabilise dividend at a level (if necessary below the current level) which, in the light of local history and conditions, is high enough to act as an effective inducement to trade, but not so high that it cannot be maintained for a period of years ahead ; and they should allocate the remaining surplus, and any increases in the surplus, to reserve. (Chapter 3, section III.)

(2) Financial Policy

Recent levels of capital expenditure by retail societies appear to be seriously inadequate if judged either by the rate of expenditure of the private distributive trades, or by the requirements of a policy of rapid Co-operative expansion. We estimate that if the Movement is to increase its total food trade by one-third, and to double its present share of non-food trade, a total capital expenditure on new assets of some £200 millions will be required over the next 10 years (Appendix 1). This would represent an annual expenditure on new assets of well over double the present level, and would impose a considerable strain on the Movement's capital resources. (Chapter 9, section II.)

We have considered various ways in which additional capital might be found. We think that members' capital may be more sensitive to changes in the rate of interest than is commonly supposed. We therefore recommend (4) that societies in need of fresh capital should consider more carefully than they have done in the past the possibility of offering higher rates of interest. (Chapter 9, section III.)

But we do not expect the annual increase in members' capital to return (in real terms) to its pre-war level, nor generally that an abundant flow of new members' capital will ever again enable the Movement not merely painlessly to finance its entire capital expenditure, but also to build up a huge reserve of financial investments. (Chapter 9, section III.)

We therefore believe that alternative sources of finance will be more important than they have been in the past. These sources may be listed as follows.

First, the growth in superannuation funds. We would recommend (5) that the Movement should be circumspect about relying too heavily on this as a regular and reliable source of new finance. (Chapter 9, section IV.)

Secondly, depreciation. We recommend (6) that societies should set aside more for depreciation than they do to-day. (Chapter 9, section V.)

Thirdly, reserve allocations. The amounts placed to reserve in the Co-operative Movement are very much lower than the amounts so placed by the Movement's private competitors. Retail societies set aside only 4% of their disposable surplus, the private retail trades 47%. We recognise that higher reserve allocations entail a higher tax liability. Nevertheless, the Movement will not be able to finance a programme of rapid expansion if the amounts put to reserve continue to be as relatively puny as they are to-day. We therefore strongly recommend (7) that societies should allocate substantially more to reserve than they do to-day. (Chapter 9, section VI.)

These sources of finance will not, however, provide all the new capital which will be required for an ambitious programme of expansion ; and societies should therefore call on some part of their huge reserve of financial investments. This raises the question of what is the correct ratio of liquid assets to withdrawable members' capital.

On this point, we recommend (8) first that the Movement should define with greater precision what constitutes a liquid asset, and that societies should treat as their liquid reserve only that part of their investments which is genuinely liquid. (Chapter 9, section VII.)

On a proper definition of liquidity, however, the liquidity ratio need not be as high as it has traditionally been in the past. We

recommend (9) that a 20% liquidity ratio should normally be regarded as appropriate for the Movement as a whole, although some individual societies may find it advisable for reasons of local history and conditions to adopt a higher, or even a lower, figure. (Chapter 9, section VII.)

We estimate that the adoption of a lower ratio and the consequent release of non-trade assets for use in trade, combined with a more active policy of ploughing-back, would suffice to meet the additional capital requirements of the next 10 years. But it would not much more than suffice ; and the idea that the Movement's capital resources are more or less inexhaustible is quite mistaken. Indeed, it arises only because the Movement's level of capital expenditure is much too low. (Chapter 9, section VII.)

(3) Management

A medium or large Co-operative society to-day is a highly intricate business organism, depending for its success on the skilful use of a large number of specialised techniques. Under these circumstances, it is no longer possible for a part-time body of lay Co-operators to assume the responsibility for detailed day-to-day management. We therefore recommend (10) that Boards should concentrate on major policy and ultimate supervision, leaving the detailed management to the paid officials : and that the exact division of responsibility between Board and officials should always be clearly laid down. (Chapter 5, section I.)

Many loyal and able Co-operators who would like to serve the Movement on the Board of a society are now deterred by the large number of committee and sub-committee meetings which take place in some societies. Both for this reason, and to emphasise the altered role of the Board under present-day conditions, we recommend (11), as a general rule, that standing Sub-Committees of Boards should be abolished, and that the main Board should meet at the very most weekly and possibly monthly. (Chapter 5, section II.)

We recommend (12) that all societies (except very small ones, where the question hardly arises) should, if necessary with the help of outside business consultants or the Co-operative Union, create a clear management structure, with unambiguous job specifications and an explicit chain of command. (Chapter 5, section III.)

We recommend (13) that the Movement should be more willing than it has been in the past to recruit from grammar schools and Universities. (Chapter 5, section IV.)

We recommend (14) that in all large societies the selection, recruitment and training of school-leavers should be the responsibility of a specialised Personnel Department. (Chapter 5, section IV.)

We recommend (15) that Boards should, when considering the recruitment of the managers of the future, adopt a more generous attitude towards salaries—though they should then be more ready to dismiss officials for slackness or incompetence. (Chapter 5, section V.)

We recommend (16) that all large societies should establish a system of management trainees ; that is, they should select their most promising material in the 20-25 age-group and give them intensive training as the potential top officials of the future. We further recommend that this training should where possible include selection for the main courses at the Co-operative College. (Chapter 5, section VI.)

We recommend (17) that all societies should adopt a definite policy of regular consultation with the representatives of the Trade Unions and the employees, and that medium and large societies in particular should devote more resources than they do now to the increasingly specialised function of personnel management. (Chapter 5, section VII.)

(4) Amalgamation

We have concluded that the present large number and diverse size of Co-operative retail societies places the Movement under a severe handicap in competing with the multiple shop organisations. We do not believe, quite apart from any social considerations, that a strong economic case exists for the creation of a single national society. But we do believe that the number of societies should be drastically reduced, and the average size increased, for the following reasons.

First, both Co-operative and private experience which we have drawn on suggest that a chain of at the very least 10 and probably 20 grocery shops is the smallest unit capable of generating significant economies of scale in groceries. There are over 750 Co-operative

societies with fewer than 15 grocery shops each. (Chapter 6, section III.)

Secondly, an efficient department store structure requires ideally that there should be only one society to each main shopping centre and its catchment-area. (Chapter 6, section III.)

Thirdly, we have found in many parts of the country a considerable waste and duplication of Co-operative resources, both human and material, due to the existence of a number of separate societies jostling each other in the same market area. (Chapter 6, section I.)

These arguments have led us to conclude that amalgamation is required on a large and rapid scale. We therefore recommend (18) that retail societies should accept the view that the "ideal" number of societies is in the region of 200-300, and that they should willingly co-operate in the national amalgamation survey and plan described in the next section. (Chapter 6, section III.)

IV. RECOMMENDATIONS TO THE CO-OPERATIVE UNION

(1) Amalgamation

We recommend (19) that the Central Executive should invite Congress to authorise a national economic and trading survey designed to lead to definite proposals for amalgamation. The survey should be carried out by an enlarged Research and Statistical Department. Its results would be presented to the Central Executive, which, acting under the authority of the Congress resolution, would lay on Sectional Boards the explicit responsibility of preparing schemes for its implementation. (Chapter 6, section V.)

We recommend (20) that the Sectional Boards should then draw up at least the outline of actual schemes for amalgamation, and should present these, sometimes in the form of alternatives, to the societies concerned. We further recommend that where the Board of a society opposes an amalgamation proposal submitted to it by the Sectional Board, it should nevertheless offer the latter equal facilities with itself for presenting the case to a members' meeting at which the final decision should be taken. (Chapter 6, section VI.)

The detailed contents of the schemes will of course vary with local conditions; but we recommend (21) that the following principles should be observed in their preparation. First, the interests of the employees must be fully safeguarded. Secondly, suitable

guarantees must be given to the senior officials of the societies concerned. Thirdly, where local conditions make this possible, existing Boards can sometimes be kept in being as District Committees of the new society. Lastly, further to retain the element of local identity, it may sometimes be possible for a society transferring its engagements to retain its local name as the "X" Division of "Y" society. (Chapter 6, section VI.)

(2) Labour Relations

We recommend (22) that the Co-operative Union should establish some form of Joint Industrial Council with the Trade Unions in addition to the existing wages machinery. This would provide a forum for joint discussion not only of such questions as staffing, labour turnover, training and promotion, but also of the wider economic problems facing the Movement. (Chapter 5, section VII.)

(3) Central Services

We recommend the following changes in, or additions to, the central departments of the Co-operative Union.

First, we recommend (23) that the Labour Department should be expanded and given explicit new functions. In addition to its present responsibilities for wage negotiation and conciliation, it should become a central advisory body on such questions as bonus and incentive schemes, staff training, recruitment policy, joint consultation, and personnel relations generally. (Chapter 5, section VII.)

Secondly, we recommend (24) the creation of an Employment Advisory Service to act as a meeting-place for potential management recruits and potential employers, and to provide, if requested by societies, expert and independent advice on the selection of senior officials. (Chapter 5, section IV.)

Thirdly, we recommend (25) that both the Finance and Research and Statistical Departments should be enlarged, and that they should, in addition to their present functions, provide for the benefit of Boards of societies regular yardsticks of trade and capital progress to enable the Boards clearly to judge the relative efficiency of their societies. (Chapter 8, section I.)

(4) Finance

We recommend (26) that the Central Executive should propose to Congress a substantial increase in societies' contributions, which

are lower as a proportion of trade than they were before the war. The increase is needed both to finance the enlarged central services just mentioned, and to enable the Union to provide its share of the current income of the new Retail Development Society described below. (Chapter 8, section IV.)

V. RECOMMENDATIONS TO THE WHOLESALE SOCIETIES

(1) Production Policy

We reviewed the traditional arguments for Co-operative production in the light of present-day conditions, and reached the following conclusions.

First, in the field of basic foodstuffs, which is the most traditional field of Co-operative production, it is still the case that operating costs are reduced if the entire chain of distribution, including wholesaling, processing, and (an element of) production, is vertically organised. The Movement is already heavily involved in such commodities ; and its output in this field should be not merely maintained, but wherever possible expanded. (Chapter 11, section II.)

Secondly, the more general arguments for production by a vertically organised Movement, resting on the benefit either to the retailer of controlling his supplies or to the producer of having special links with a group of retail outlets, have been weakened by a number of technical and economic changes, and now apply to a smaller range of commodities. (Chapter 11, section III.)

Thirdly, the "monopoly" argument for Co-operative production is not in most cases decisive to-day. (Chapter 11, section IV.)

On balance, these arguments do not point to a large increase in the range of Co-operative output. For this and other reasons, and in the light of the fact that the Movement possesses only a limited supply of capital, we recommend (27) that the greater proportion of Co-operative capital expenditure in the next few years should take place, not in the production, but in the retail field. (Chapter 11, section V.)

This does not mean that the Movement's production activities will stagnate. On the contrary, we make many proposals for ensuring a fuller utilisation of Co-operative factories. In addition, considerable new investment must certainly take place in the basic foodstuffs

divisions ; much modernisation is needed throughout the production field ; and of course there may still be favourable opportunities for entering particular new lines. Total Co-operative output will, in consequence, rise substantially. Nevertheless, the greater effort should be concentrated on retail development. (Chapter 11, section V.)

In order to implement this broad decision, and for other reasons set out in detail in Chapter 11, we recommend (28) that the Wholesale Societies should, as opportunity offers, narrow the range of output and the number of separate lines which they produce and use available resources primarily for improving the efficiency and expanding the output of the remaining lines. The ideal should not be to try to produce everything which is sold in Co-operative shops, regardless of whether the goods can be as well produced outside, but to become a specialised, formidable and large-scale producer of a limited number of basic goods in respect of which the Movement enjoys a special advantage. (Chapter 11, section V.)

Within the framework of this policy, we recommend (29) that detailed investment-decisions should be taken on the basis of a comparison of relative rates of return on capital. This concept appears to have been somewhat neglected in the past ; and decisions have been taken under the influence of a variety of motives and pressures. The result has been a somewhat haphazard and perhaps wasteful use of Co-operative capital. Only if the criterion of return on capital is strictly applied will investment decisions be rational and capital efficiently employed. (Chapter 11, section VI.)

If return on capital is to be measured, the comparative costs of different enterprises must also be capable of measurement. We therefore recommend (30) first that working capital and transfer costs should be accurately allocated to all productive units, and secondly that a central audit department should have the duty of examining the books of all units, and of reporting to the Board on what use they are making of the capital allocated to them. (Chapter 11, section VI.)

(2) Merchandising and Wholesaling Policy

Two simultaneous but contrary changes have occurred in the position of the wholesaler ; and they inevitably affect the position of the two Co-operative Wholesale Societies. On the one hand, the larger retail societies tend increasingly to dispense with the services of a wholesaler and to deal direct with the manufacturer. On the

other hand, the smaller societies, in common with other small retailers, increasingly require from their central organisation not merely the traditional wholesaling functions, but also a buying policy as skilful and dynamic as that of the central buying organisation of a large multiple. (Chapter 12, section I.)

Both these changes place the Wholesale Societies under a heavier competitive pressure. They will not, in our view, meet this pressure successfully unless they adopt more normal commercial policies than they operate to-day. (Chapter 12, section II.)

We therefore recommend (31) that the Wholesale Societies should establish an open system of volume discounts on all orders (including on goods which are invoiced-through) ; that they should vary their prices and margins broadly according to the actual services which they render, charging only a buying commission to the society which is prepared to take delivery direct to its own warehouse, but a full wholesale margin to the society which demands a full range of wholesale services ; and that they should introduce stricter obligations as to contract than now appear to exist. (Chapter 12, section II.)

We also recommend (32) that the Wholesale Societies should adopt the system already commonly used in private trade, whereby the buyers spend a definite proportion of their time in retail stores making contacts with sales staff and customers, and so becoming more "retail-minded". (Chapter 12, section II.)

We also considered the question of invoicing-through. This is a normal practice in the distributive trades, which is justified by the principle that ten units can buy better than one. We were therefore surprised to discover the extent of the suspicion, amounting almost to resentment, which appears to exist against it amongst retail societies. In order to dispel this suspicion, we recommend (33) that the Wholesale Societies should be willing to make known to retail societies the terms of invoicing-through agreements ; for, if they are justified in their claim that no one is worse off as a result of these agreements, there can be no point in the present secrecy. (Chapter 12, section II.)

(3) The Merchandising of Co-operative Productions

First we attempted to decide where the main responsibility should lie for keeping Co-operative factories fully utilised.

The impression is sometimes given by Co-operative producers that the main responsibility lies on the retail societies, which are under an obligation to be consistently "loyal" to Co-operative factories. We do not share this attitude. Certainly there are many improvements on the retail side, already proposed by us on other grounds, which will also enlarge the market for Co-operative productions. But the main responsibility does not rest on the retail societies. Their first loyalty must be, not to the Co-operative factories, but to their own members. These two loyalties will not conflict if the factories produce the goods which the members freely demand. But if the members express a preference for non-Co-operative goods, and the Co-operative factories producing similar goods are then under-utilised, the responsibility rests squarely on the producer ; either his price, or his quality, or his advertising outlay, or his sales technique, or his choice of product, is at fault. (Chapter 12, section III.)

We also think that too much responsibility has been laid on retail societies in the matter of co-ordinated demand. In any event, we do not believe that the recent initiatives in this field can ever solve the problems of the Co-operative producer. We applaud the motives which led to the formation of the N.C.M.A. panels ; but we doubt if they can ever make a decisive contribution. Regional buying groups have some natural advantages over the panels ; and they may have a certain role to play—particularly during the interim period while the Wholesale Societies (if our various recommendations are accepted) are carrying out major reforms in their policies and organisation. But the essential responsibility for the success of Co-operative productions must rest on the producer, aided by successful merchandising on the part of the wholesaler. (Chapter 12, section III.)

We would rely for success mainly on the following changes. First, the radical re-organisation of the management structure of the Wholesale Societies, which we propose in the next section, should significantly improve the calibre and enterprise of management at all levels.

Secondly, the risks of under-utilisation will be much diminished if the choice of what to produce is made subject, as we suggested above, to a more systematic process of economic calculation than has been the case in the past. In addition, a severe pruning of the number

of lines produced will permit a greater specialisation and a heavier concentration of effort on the remaining lines.

Thirdly, the danger of driblet orders and uneconomic production runs will be greatly reduced if a rational structure of charges, such as we have already advocated in respect of general wholesaling, is applied also to the sales of Co-operative products. We have in mind especially volume discounts.

Lastly, we recommend (34) that clear decisions should be made as to where the responsibility lies in each case for the merchandising of Co-operative products. If it lies on the production unit, then the factories must be free to set up their own sales organisations, conduct their own promotion campaigns, and even, if necessary, sell to private trade. If it lies on the wholesale unit, then the wholesale buyers must ensure, by alert and dynamic specification buying, that the factories are kept fully utilised. The choice will vary according to the commodity. But the responsibility must rest firmly on one unit or the other ; and the unit concerned must then, without either expecting or demanding special consideration on grounds of loyalty, but simply by the exercise of its own initiative and enterprise, create the market for its goods. (Chapter 12, section V.)

(4) Financial Policy

We have already suggested that an ambitious programme of retail expansion will require the use in trade of the greater part of retail societies' existing investments (above the minimum liquidity requirement). The corollaries to this are first that the Wholesale Societies should be in a position to release retail societies' loans and deposits to the necessary extent, and secondly that capital should be redistributed from capital-surplus to capital-deficit societies.

We therefore recommend (35) that the Wholesale Societies should make every effort to allocate more to reserve than they do to-day, the objective being that the operations of the Trading Departments should ultimately be independent of withdrawable loan capital. (Chapter 10, section I.)

Capital cannot be redistributed within the Movement unless it is already held within the Movement ; and at present a substantial proportion of retail societies' investments are held outside. In order both to attract these back, and also to attract fresh capital from outside the Movement, we recommend (36) that at a suitable future date

the Wholesale Societies, while retaining the present system of withdrawable deposits, should create in addition a new form of long or medium-term loan carrying a higher rate of interest. In order that the net additional cost should not be excessive, the new loans should not be launched until the short-term market rate is below the rates now offered by the Wholesale Societies ; it should then be possible to reduce the rates on the existing types of short deposit. The new loans should be the responsibility not of the Banking Departments, but of newly created and separate Investment Divisions. They should be offered to outside institutions (notably the Trade Unions) and individuals as well as to Co-operative organisations. (Chapter 10, section IV.)

(5) Management and Labour Relations

Both the greater part of our recommendations to retail societies under the heading "Management", and our recommendation to the Co-operative Union under the heading "Labour Relations", may be taken as applying also to the Wholesale Societies.

VI. THE RE-ORGANISATION OF THE WHOLESALE SOCIETIES

Finally, we summarise our two major structural recommendations, one addressed to the Wholesale Societies and the other both to them and to the Co-operative Union.

The system of management of the Wholesale Societies is exceptional in the Co-operative Movement in that the democratically-elected lay Board also has full-time managerial responsibilities. We do not regard this system as being, under present-day conditions, appropriate. The functions of democratic control and active management are wholly different, and should be kept distinct. The one should be carried out by a lay body elected on a representative basis, the other by a professional body appointed solely for its technical qualifications. If the two functions are confused, neither will be properly performed. (Chapter 13, section I.)

We therefore recommend (37) that the function of democratic control should be exercised in each Wholesale Society by a lay Supervisory Council, elected in the same way as the present Boards, but ultimately part-time instead of full-time. Its role would be

essentially a trustee and supervisory one, exercised on behalf of the member-societies ; it would confine itself to supervising and sanctioning major policy, and altogether eschew interference in detailed management. (Chapter 13, section I.)

We recommend (38) that each Council should appoint a full-time central Management Board, to be managerially responsible for the organisation as a whole. Below this, there should be a Finance Executive, a Food Executive, a Dry Goods Executive, and a number of central Divisions. The Management Board would consist, in addition to the Chief Executive Officer (and his deputy) of the whole Society, of the heads (and in some cases their deputies) of these Executives and Divisions. It should not, however, exceed a size of (say) 12. The full-time President of the Supervisory Council would normally take the chair at formal meetings of the Board. (Chapter 13, section II.)

We recommend (39) (by way of illustration) that the central Divisions should consist of a Secretariat, a Technical Services Division, a Retail Liaison Division, and (in the C.W.S.) an Agricultural Division. (Chapter 13, section II.)

We recommend (40) (by way of illustration) that the Finance Executive should consist, in addition to a chief official and his deputy, of the Bank Manager, the head of the new Investment Division mentioned above, the Chief Accountant, an official responsible for share and loan accounts, and (in a liaison role) the General Manager of the Co-operative Insurance Society. (Chapter 13, section II.)

We recommend (41) that the Food and Dry Goods Executives should consist, in addition to the chief and deputy officials, of the heads of a series of vertically-organised product divisions or groups of product divisions, with such full-time technical members as may be found desirable. (Chapter 13, section II.)

We have found a singular lack of co-ordination of policy, and even a degree of mutual suspicion, to exist between the retail and Wholesale Societies. In order to diminish this suspicion, and to help to bind the retail and wholesale wings of the Movement more closely together, we recommend (42) that the Food and Dry Goods Executives should also contain a proportion (say, 3 or 4) of retail society chief officials, appointed by the Supervisory Council, as part-time members. (Chapter 13, section II.)

In order to accomplish the transition, we recommend (43) that the existing Boards of Directors should compose the first Supervisory Councils, and that no Director should suffer any loss of salary or emoluments as a result of the change. Although the change of name and function should be sharp and immediate, we do not propose that the existing Directors should become part-time ; the transition in this respect should be accomplished by electing only part-time members as vacancies on the Council occur. Meanwhile, we recommend (44) that the full-time members of the Council should form themselves into an ad hoc Re-organisation Committee, charged with the single task of supervising the various structural changes in the Wholesale Societies proposed in this Report. (Chapter 13, section III.)

VII. A CO-OPERATIVE RETAIL DEVELOPMENT SOCIETY

We have found a number of fields in which the efforts of local societies need to be supplemented and reinforced by national action. We do not have in mind authoritarian or dictatorial action, which would be as impossible as it would be undesirable in a democratic Movement : but the voluntary acceptance of advice and leadership, and a willingness to delegate to the centre those functions which cannot be adequately performed locally.

First, there is a need for a fuller and more systematic provision of "operational" common services : that is, technical services designed to assist societies to tackle particular technical problems. In particular, a central body is needed to provide expert advice both on selling methods and techniques, and on management structure and organisation. (Chapter 8, section I.)

Secondly, there are societies, especially medium-sized societies in important shopping centres, which urgently require to embark on a major programme of dry goods development, but which feel handicapped by the lack either of capital or of technical advice and assistance. We believe that a central body should exist to provide the recognised channel of approach and source of advice for societies needing capital for new large-scale development. (Chapter 8, section II.)

Thirdly, there is no single body responsible for advising the retail Movement on trends and developments in retail methods and consumers' expenditure. There should be a central economic planning

unit, constantly watching the changing pattern of consumer spending, and able to advise the Movement on whether, when, and how it should seek to enter new fields of retail trading. (Chapter 8, section III.)

Lastly, we have formed the conclusion that the Movement urgently requires to establish national chains of specialist shops in certain of the dry goods trades. We have in mind those trades, notably in the clothing and footwear field, in which the Movement is lagging conspicuously behind, in which the advantages of multiple shop organisation are well-proved, and in which local societies, restricted by boundary agreements, are in no position ever to attain to these advantages.

We have examined the contrast between the Co-operative and multiple scale of operations in these trades ; and it can only be described as staggering. In most food and some dry goods trades, a rapid programme of amalgamation, combined with a development of federal action, would give the Co-operative Movement an economic average scale of operation. But in clothing and footwear it could never do so ; for here only a national, or at least a regional, market would justify the necessary scale.

The answer must be the creation of national chains of specialist shops. On the side of retail societies, this requires the surrender of the notion that the local society can claim a permanent monopoly of Co-operative trade in its own area, regardless of the untapped Co-operative potential which may exist. At the centre, it requires a body first to decide on and then to plan the establishment of the national chains. (Chapter 7.)

To carry out these various central functions, we recommend (45) that the Co-operative Union, acting under the authority of Congress, and the two Wholesale Societies, acting under the authority of their constituent societies, should jointly establish a new federal society to be known as the Co-operative Retail Development Society, the nominal voting shares to be held as to one-half by the Union and one-half by the two Wholesale Societies. These bodies would choose a part-time Supervisory Council in the same proportions, to consist of elected persons ; the members would be chosen on the side of the Union by the Central Executive, and on the side of the Wholesale Societies from the new Supervisory Councils. (Chapter 8, section IV.)

This Council would appoint a full-time Management Board, to consist (for purposes of illustration) of a Chief Executive Officer, his deputy, and the heads of an Operational Services Division, an Organisation and Methods Division, a Retail Development Division, and an Economic Planning Division. (Chapter 8, section IV.)

We recommend (46) that the Council should also appoint a number of part-time members to this Board, to consist of an equal number of, on the one side, chief officials of retail societies, and on the other side members of the Management Boards of the C.W.S. and S.C.W.S. together with the General Manager of the C.I.S. (Chapter 8, section IV.)

We recommend (47) that the Chief Executive Officer of the Retail Development Society should be ex officio a member of the Management Board of the C.W.S., and his deputy of the Management Board of the S.C.W.S. These last two proposals are designed to ensure the maximum degree of co-ordination between the retail, wholesale and production wings of the Movement. (Chapter 8, section IV.)

We recommend (48) that the Development Society should not itself own capital, since we do not wish further to fragment the supply of Co-operative capital. It would channel requests for capital from retail societies to the appropriate lending institutions, which will themselves be represented both on its Council and on its Board. (Chapter 10, section V.)

We recommend (49) that the current income of the Society should be provided as to one-half by the Union and one-half by the Wholesale Societies. This will require an increase in societies' subscriptions to the Union, which we have already recommended above. (Chapter 8, section IV.)

We recommend (50) that the Congress resolution which authorises, as we hope, the formation of the new Society, should also include an injunction to it to proceed at once with the planning and establishment of the first national specialist chain. (Chapter 8, section IV.)

* * *

Finally, we recommend (51) that the Movement should formally re-examine both major constitutional issues, and also its basic trading policies, at least once every decade.

Appendix 1

FUTURE CAPITAL REQUIREMENTS OF THE RETAIL CO-OPERATIVE MOVEMENT

I. ASSUMPTIONS

We assume generally that the Movement wishes to achieve a substantial increase in its share of trade. Specifically, we assume first that Co-operative food sales will increase by one-third and the Co-operative share of non-food trade will double over the next ten years, and secondly that population will increase by 2-3% in the same period. All the projections are made in 1957 prices.

II. FOOD TRADES

In 1957 the retail societies were responsible for £725 millions of food and tobacco sales, or just under 14% of national food sales. An increase of one-third in Co-operative sales would bring the proportion to 17-18% of national sales. At 1957 prices and after allowing for the population increase, Co-operative sales would then be some £975 millions—an increase of £250 millions. An increase in sales of this order will necessitate a heavy capital investment in new shops, vehicles, fixtures, fittings and equipment. Using the currently-accepted rule-of-thumb ratio in the food trades of 1 : 4 for investment and sales, the capital investment required over the next 10 years would be £60-65 millions.

This cannot be considered an unreasonable target ; for the rate of increase which it assumes in the Co-operative share of food trade is approximately the same as that achieved in the nineteen-twenties and nineteen-thirties.

III. NON-FOOD TRADES

In 1957 the retail societies were responsible for £240 millions of non-food sales, or 7% of national non-food sales. If this proportion were to be doubled in the next 10 years to 14%, and allowing for the population increase, Co-operative sales in 1967 (at 1957 prices) would be £510 millions—an increase of £270 millions. Using the currently-accepted rule-of-thumb ratio in the non-food trades of 1 : 2 for investment and sales, the capital requirements over the next 10 years in the non-food trades would be £130-140 millions.

A sales increase of this magnitude again cannot be considered an unreasonable target ; for it would only involve bringing the Co-operative non-food sales per head of the rest of the country up to the present level of sales per head in the Scottish and Northern Sections.

IV. TOTAL ESTIMATED CAPITAL REQUIREMENTS

The total capital investment required to reach these targets would thus be £190-205 millions over the 10-year period, or an average of £19-20½ millions a year. We must, in addition, take into account the likely increase in working capital rendered necessary by the increase in sales ; this might be £10-15 millions in the food trades, and £40-50 millions in the non-food trades.

These estimates take no account of normal expenditure on upkeep and maintenance of capital equipment. Nor do they take account of the possible increase in sales resulting from increased efficiency in the use of man-power and existing capital equipment. This is because they also ignore the likely increase in the gross national product per head. In fact, gross national product should increase by 25-30% over the 10 years ; and this will mean an increase in the volume of goods passing through the distributive system of about the same proportion. We assume that any increase in retail efficiency will simply take care of the greater through-put due to this increase in the gross national product, and will not affect the shares of trade held by different types of retailer.

Appendix 2

BY PETER VANDOME

CO-OPERATIVE SHARES AND DEPOSITS AND OTHER LIQUID ASSETS : DATA FROM THE SAVINGS SURVEYS

The Savings Surveys of 1952-55 are four annual sample surveys of 2,000-2,500 income units¹ in private households aimed at collecting detailed financial information, particularly on income and savings, from the personal sector of the economy in Great Britain. They provide estimates of the holdings of eight forms of liquid assets, including shares and deposits in Co-operative societies. They enable us to analyse the pattern of Co-operative holdings, and to make comparisons with other forms of assets. Estimates of the components of liquid assets are, however, particularly subject to reporting errors. For instance, holdings may be included under the wrong heading, inaccurate figures may be given because account books are not referred to, there may be genuine misunderstanding of what is required, wilful concealment, or an answer of "no holding" by the respondent in order to save himself trouble. The results must, therefore, be interpreted with care and are not suitable for estimating trends. It is possible, however, to make estimates of the trend in Co-operative loan and share capital from official statistics, and these same statistics can be used as a standard of reference in assessing the reliability of the Survey results. The data from official sources will be presented first; then comparisons between the official and Survey data will be made; thirdly, a more detailed analysis of the Survey material will be given.

The eight types of liquid assets considered are accounts in the Post Office and Trustee Savings Banks, Savings Certificates and Defence Bonds (these four making up National Savings), and holdings in Building Societies, Co-operative Societies, Ordinary Banks and Other Savings Banks. Official figures for holdings of these assets by the personal sector are not available, and the figures in Table 26 are only approximations to what we wish to measure.

¹An income unit is a single person aged 18 or over, or a married couple. Children under 18 are included in the income unit of their parents or guardians.

Further, they are not directly comparable with the Savings Surveys data. From Table 26 we obtain estimates of the percentage of total liquid assets held by persons invested in Co-operative societies. These were 2.40% in 1952, 2.41% in 1953, 2.39% in 1954, 2.37% in 1955 and 2.37% in 1956. Although the estimates of total liquid assets are not fully reliable, there is evidence here that the Co-operative societies' share has declined slightly; i.e., the growth in Co-operative deposits has not quite matched the growth in total liquid assets.

The relations between Co-operative capital and sales and between total liquid assets and personal income (see Table 27) provide some evidence of the position of Co-operative societies relative to the economy as a whole. The analogy is not exact, but it must serve for the present analysis. The percentage which capital forms of sales has been decreasing in recent years, but this does not necessarily mean that the addition to capital per £1 addition to sales has been falling. The addition to capital per £1 addition to sales increased from 1951 to 1954, and has fallen off in the two subsequent years. The percentage expansion in capital has been increasing each year until 1956, when the rate slackened¹. In each year it was less than the rate of increase of sales, corresponding to the fall in capital-sales ratio already mentioned. The same sort of position applies to liquid assets as a whole in relation to personal income. Both have been increasing; income has been increasing at a greater rate than assets; but between 1952 and 1954 the gap narrowed, with a slight widening in 1955-56. Investment in Co-operative societies has thus followed closely the national trends in liquid assets holdings, but Co-operative societies appear to have been attracting slightly less capital in the most recent years than might be expected from their sales and the increases in personal income.

The Survey and official statistics are not fully comparable, but Tables 28 and 29 give an indication of the reliability of the Survey estimates. Taking the four Surveys together we get the comparison in Table 28. The Surveys usually give from half to two-thirds of the external estimates, except that the coverage for Building Societies is less than this. Table 29 gives more detail for Co-operative holdings. They are particularly low in the 1954 Survey and this certainly does

¹This is not clear from Table 27, but if we compare the figures for December, 1955, and December, 1956, we find a change of only 2.4%.

not reflect accurately any actual change in the level of holdings. Despite these difficulties, however, some comparisons can be made with external data which show a good agreement and we can obtain the general pattern of Co-operative holdings with a fair degree of confidence.

Except for 1954, the external sources and the Surveys give similar estimates of the share which Co-operative societies have of total liquid assets (Table 29). Where the Surveys appear to be deficient is in getting too few income units with a Co-operative account, and not in getting underestimates of the size of holdings. The Survey estimates of the percentage of income units with Co-operative accounts appears to be much too low, even in 1952 when it was 22%. The external estimate is based on about 12 million members distributed among 24 million income units with an (assumed) average of 1.2 members per income unit with some holding. Part of the discrepancy between these figures will no doubt be accounted for by a number of people having a nominal holding and not reporting it. It is also possible that the official figure of 12 million members is too high, through people who have ceased to be active members (or even members at all) remaining on the books of a Co-operative society. The Survey estimates of mean holdings on the other hand are consistently higher. The figures in Table 29 are not exactly comparable as one set is on an income unit basis and the other on an account basis. A correction for this would reduce the differences, and the mean amount per account in the 1953 Survey was £27. A further part of the difference could be accounted for by a tendency for the Surveys to miss very small, nominal holdings, and some members may have included sums in Co-operative "Christmas Clubs" and the like, which are not shares or deposits in a society.

Table 30 shows distributions from the Surveys of co-operators and all income units by age, income and liquid assets. Two points stand out. There are very few co-operators in the lowest age group. Secondly, the co-operators are more clustered in the middle of the income (£300-999) and assets (£100-999) scales than all units. There is, however, nearly as large a proportion of co-operators with incomes of £1,000 and over, as in the samples at large. The differential for those with liquid assets of £1,000 and over is slightly larger but about 4% of co-operators are in this class.

Our picture of co-operators will be clearer if we also consider the holders, and holdings, of the other forms of assets. From the

Surveys we find that a little over two-thirds of income units have some liquid assets, some 16% holding amounts in a Co-operative society. The external sources show that the societies' share of total liquid assets is about 2.4%, but is declining slightly. The major component of the total is National Savings, whose share of the total fell from 57% in 1952 to 51% in 1956. This was mainly due to the fall in Post Office Savings, though Defence Bonds also fell, the share going to Savings Certificates fell slightly, while Trustee Savings Banks only just held their own. (The latest results quoted here apply to before the 1956 Budget, which arrested the movement out of National Savings.) The falling share going to National Savings is matched by a sharply upward trend in Building Societies, whose share went up from 14% in 1952 to 20% in 1956.

Distributions of income units holding the eight forms of assets (from the Savings Surveys) by age, income and liquid assets classes are given in Table 31. Compared with the distribution of all income units, investors in the three types of Savings Bank are concentrated in the middle age ranges (25-54). Holders of the other assets are usually at least 25 years old, and in the case of Building Societies and Defence Bonds, there is a pronounced bias towards the higher age ranges. The distributions by income and assets show that the holders of each type of asset form comparatively wealthy groups compared with the whole samples. (In the distribution by assets it should be noted that all holders of assets have, by definition, some liquid assets, whereas in the whole samples about a third of income units have none at all.) The group which shows the least difference in this respect, however, are members of Co-operative societies. Those with Ordinary Bank accounts, Defence Bonds, Savings Certificates and investments in Building Societies show the biggest difference.

In Table 32 the Survey distributions of total liquid assets by components are given for age, income and assets classes. As age increases the share going to the Post Office Savings Bank decreases, while that going to Building Societies increases. Savings Certificates attract the biggest proportion of the total from the age group 35-44. There is little variation in the proportion going to Co-operative societies.

Both the Post Office Savings Bank and the Co-operative societies attract a sharply decreasing share of the total as income rises; Savings Certificates account for one-fifth to one-quarter over most of the

income range ; and the share going to Building Societies and Ordinary Banks rises with income.

Assets whose share falls as total liquid assets increase are Post Office and Trustee Savings Banks, and the Co-operative societies. The opposite applies to Defence Bonds and Building Societies.

With this as background we can go on to use the Survey results to analyse Co-operative holdings in greater detail.

THE PATTERN OF CO-OPERATIVE HOLDINGS

Age

Table 33 gives the Survey results classified by age. The percentage having a Co-operative account appears to reach a maximum in the range 45-64. It is very low below 25, rises to a maximum, and falls off slightly among the 65 and over group. The mean holding also increases with age, reaching a maximum either in the 55-64 or 65 and over group. Holdings in these groups are two to four times the size of those in the 25-44 range. This is roughly the relationship found for total liquid assets. The Surveys show 50-70% of Co-operative holdings belonging to income units with a head aged 55 or more. In 1952 and 1953 about the same concentration of both Co-operative holdings and total liquid assets among the elderly was found, but in 1954 and 1955 Co-operative holdings were distinctly more concentrated among the elderly than were all liquid assets:

	1954	1955
Percentage of all liquid assets held by those aged 55 and over	59	55
Percentage of Co-operative holdings held by those aged 55 and over	71	64

Income

The results in Table 34 show the percentage having a Co-operative holding to be a maximum in the middle and upper-middle income range, say from £400 or £500 to £1,000 a year. Above £1,000 there is a falling off to rather less than the figure for the whole sample. There is no strong, systematic variation in size of holdings with income. Holdings tend to decrease somewhat as income rises, but above £1,000 there are occasional large holdings which bring the

mean for this group above the average (except in 1955 when the mean holding for those with £1,000 or more was about £8 less than the figure for the whole sample). Other forms of liquid assets are positively correlated with income, so we find the Co-operative societies getting a decreasing share of total liquid assets as income increases, this share being especially small for those with incomes of £1,000 and over. As already mentioned, the same applies to Post Office Savings, and, to a lesser extent, to Trustee Savings Bank deposits, while Building Society deposits and Ordinary Bank accounts show the opposite tendency. The Co-operative holdings are not particularly concentrated in any income group. Thus about two-thirds of Co-operative deposits and shares are held by the two-thirds of income units with incomes under £600.

Assets

There is a marked increase in size of holding as total assets increase, since, by definition, large holdings cannot occur in the low assets classes (Table 35). For those with assets of £1,000 and over the mean holding is about £100. Co-operative membership is most frequent among those with small amounts of assets, £1-99¹, and least frequent among those with assets of £1,000 and over. As with income the percentage of total liquid assets going to the Co-operative societies falls sharply as the assets level increases.

CONCLUSIONS

1. Co-operative societies appear to be attracting slightly less of available funds than is needed to maintain their position relative to other forms of liquid assets, but savings going to them have broadly followed national trends.

2. Few people below the age of 25 are members of Co-operative societies. We cannot deduce from the Survey results whether this means that a generation is growing up which will tend never to join a Co-operative society, or whether most members join one at a higher age than 25, say after they have married and set up house. In either case, however, there is a large potential membership among young people.

¹In Table 35 the grouping is £0-99. About half the income units in this group have no liquid assets, and to obtain the approximate percentage of Co-operative members among units with assets of £1-99, the percentage with an account in the £0-99 class should be doubled.

3. Co-operators in our samples have, on the whole, relatively high incomes and assets when compared with all income units. But the difference is not large ; and if the comparison is restricted to holders of the eight types of liquid assets, Co-operative members distinctly form the least affluent group.

4. Co-operative shares and deposits are not regarded as an attractive form of investment by those with large amounts of capital. Co-operative holdings decrease in importance as income and assets increase.

5. Co-operative holdings increase with age. In view of the previous point and the small number of large holdings, this probably reflects the accumulation of dividends over time rather than deliberate investment policy by older (and wealthier) people.

6. The type of asset which shows the greatest similarity to Co-operative accounts in terms and appeal is the Post Office Savings Bank which has been doing worse than Co-operative accounts. Both are used by the very small saver. Where comparatively large amounts of liquid assets are available Building Societies and Savings Certificates are the most popular forms of investment. Ordinary Banks take a large proportion of assets but are in a special class since current accounts cannot be regarded as a form of investment.

TABLE 26. External Estimates of Liquid Asset Holdings in the Personal Sector ¹ (£m.)

Asset	1952	1953	1954	1955	1956
Post Office S.B. ²	1,873	1,802	1,756	1,739	1,705
Trustee S.B. ²	941	950	982	1,030	1,055
Savings Certificates ³	1,726	1,749	1,768	1,814	1,833
Defence Bonds ⁴	877	820	783	805	777
Building Societies ⁵	1,325	1,462	1,649	1,853	2,092
Co-operative Societies ⁶	228	231	235	241	248
Other Savings Banks ⁷	(500)	(500)	(500)	(500)	(500)
Ordinary Banks ⁸	2,000	2,060	2,140	(2,200)	(2,250)
Total	9,470	9,574	9,813	10,182	10,460

(1) Entries refer to end of first quarter of year wherever possible.

(2) *Monthly Digest of Statistics*. Amount remaining invested, including accrued interest.

(3) *Monthly Digest of Statistics*. Principal remaining invested.

(4) *Monthly Digest of Statistics*.

(5) *Report of Chief Registrar of Friendly Societies*. Total liabilities, interpolating between years.

(6) *Report of Chief Registrar of Friendly Societies*. Shares plus deposits, interpolating between end of year figures.

(7) The figure in this line is a pure guess. The Savings Survey estimates range from £184m. to £409m.

(8) The figure for 1952 is derived from the evidence of the British Bankers Association to the Royal Commission on the Taxation of Profits and Income. Estimates of the change in net personal bank deposits given in C.T. Saunders, "Some Problems in the Estimation of Personal Savings and Investment," *Manchester Statistical Society*, November, 1954, have been added to give the figures for 1953 and 1954. For 1955 and 1956 an arbitrary £50m. or so has been added each year. These last two figures may have a fair degree of error, but they are only introduced to enable us to estimate the total ; the same applies to the figure for Other Savings Banks.

TABLE 27. Comparison of Co-operative Societies and Personal Sector

Year	Co-operatives				Personal Sector			
	Shares and deposits ¹ (£m.)	Percentage change	Sales ² (£m.)	Percentage change	Liquid assets ¹ (£m.)	Percentage change	Personal income ³ (£m.)	Percentage change
1952	228	1.3	704	6.3	9,470	1.1	12,989	5.7
1953	231	1.7	748	3.5	9,574	2.5	13,728	5.8
1954	235	2.6	774	6.6	9,813	3.8	14,522	8.8
1955	241	2.9	825	7.8	10,182	2.7	15,807	7.9
1956	248		889		10,460		17,050	

(1) Estimates for 31st March, as in Table I.

(2) *Report of Chief Registrar of Friendly Societies*.

(3) *National Income and Expenditure*, 1957.

TABLE 28. Comparison of Survey and External Estimates of Total Liquid Asset Holdings

Asset	External estimate (mean of four years 1952-55) (£m.)	Survey estimate (mean of four Surveys, 1952-1955) (£m.)	Survey estimate as percentage of external estimate
Post Office S.B.	1,792	965	54
Trustee S.B.	976	533	55
Savings Certificates	1,764	1,165	66
Defence Bonds	821	573	70
Building Societies	1,572	636	40
Co-operative Societies	234	121	52
Ordinary Banks	2,100	1,244	59
Other Savings Banks	(500)	259	(52)
Total	9,759	5,496	56

TABLE 29. Comparison of Survey and External Estimates of Co-operative Holdings

	1952	1953	1954	1955
Co-operative holdings as % of total Liquid Assets—				
Survey	2.5	2.6	1.4	2.4
External	2.40	2.41	2.39	2.37
Mean holding (£)—				
Survey (per I.U.)	25	30	24	39
External (per account)	21	21	21	21
Percentage of Income Units with Holding—				
Survey	22.4	16.8	13.4	16.3
External	40	40	40	40

TABLE 30. Distributions of Co-operators and All Income Units—Savings Surveys

Type of Income Unit	1952 With Co-op. Account	All Income Units	1953 With Co-op. Account	All Income Units	1954 With Co-op. Account	All Income Units	1955 With Co-op. Account	All Income Units
Age of head—								
18-24	12	1	11	3	12	2	12	
25-34	18	19	18	13	16	17	18	
35-44	N.A.	19	22	20	28	18	14	18
45-54	19	22	18	25	22	26	19	
55-64	14	14	13	12	13	21	15	
65 and over	18	23	20	19	20	20	18	
Gross Income (£)								
0-299	38	29	36	20	33	26	31	
300-599	47	48	46	49	42	37	37	
600-999	N.A.	11	22	15	28	19	32	27
1,000 and over	4	3	4	3	5	5	6	
Liquid Assets (£)								
0-99	67	63	69	63	66	54	65	
100-399	15	20	19	25	21	27	19	
400-999	N.A.	7	13	7	8	9	14	9
1,000 and over	5	4	5	3	5	5	7	
N.A.	6	..	..	..	..	..	1	..

TABLE 31. Distribution of those with Various Assets—Savings Surveys¹
(Percentages of income units)

Type of Income Unit	Those with assets in :								All
	POSB	TSB	SC	DB	BS	OSB	OB	Co-op.	
Age—									
18-24	9	10	7	2	2	12	4	2	12
25-34	20	21	14	5	16	19	20	16	17
35-44	23	20	21	7	13	26	20	21	19
45-54	21	22	26	24	26	20	22	24	19
55-64	12	15	14	21	21	14	14	16	14
65 and over	15	12	18	41	22	9	20	21	19
Gross Income (£)									
0-299	23	21	24	35	28	13	17	25	35
300-599	41	42	35	29	29	42	28	45	43
600-999	30	32	30	14	29	35	35	27	18
1,000 and over	6	5	11	22	14	10	20	3	4
Liquid Assets (£)									
0-99	49	47	29	1	18	52	29	60	67
100-399	31	31	33	15	19	28	33	24	19
400-999	13	15	21	25	27	11	19	12	8
1,000 and over	7	7	17	58	36	9	19	4	5
N.A. . . . .	..	..	..	1	..	..	..	..	1
Percentage of all I.U.s	36	14	23	3	5	7	19	16	100

(1) These distributions were obtained by averaging results from the Savings Surveys of 1953-55, where available. Each distribution is derived from at least two Surveys. Columns sum to 100 per cent apart from rounding errors.

TABLE 32. Distribution of Liquid Assets by Components—
Savings Surveys¹

Type of Income Unit	Type of Liquid Asset								All
	POSB	TSB	SC	DB	BS	OSB	OB	Co-op.	
Age—									
18-24	28	15	19	13	2	27	14	2	100
25-34	26	12	22	2	7	4	25	2	100
35-44	23	10	27	6	9	4	20	1	100
45-54	16	9	25	7	13	6	23	2	100
55-64	12	10	20	15	16	5	19	2	100
65 and over	19	10	17	13	10	4	25	2	100
Gross Income (£)—									
0-299	24	11	16	12	12	4	16	3	100
300-599	24	13	21	11	8	6	15	3	100
600-999	17	13	25	8	11	5	20	2	100
1,000 and over	6	5	22	8	19	6	34	1	100
Liquid Assets (£)—									
0-99	29	15	9	..	14	5	20	7	100
100-399	34	16	18	2	3	5	18	5	100
400-999	23	12	25	5	10	5	17	3	100
1,000 and over	9	7	21	14	18	5	23	1	100
All Income Units	18	10	21	11	11	5	23	2	100

(1) The distributions by age are averages from the 1952-55 Surveys; those for income and liquid assets are averages from the 1953-55 Surveys.

TABLE 33. Co-operative Holdings by Age—Savings Surveys

Age	Mean amount in Co-op. per I.U.	Mean Co-op. holding for I.U.s with account (£)	Percentage of income units with account	Percentage of Co-op. holdings	Co-op. holdings as percentages of total liquid assets	Percentage of income units
	(£)	(£)				
1952—						
18-24..	2	19	2	12
25-34..	..	2	11	22	2	18
35-44..	..	3	12	25	2	19
45-54..	..	7	28	26	2	14
55-64..	..	9	32	29	3	18
65 and over	..	10	41	26	3	100
All ..	6	25	22			
1953—						
18-24..	..	2	2	..	..	11
25-34..	..	3	19	17	4	18
35-44..	..	2	11	18	2	20
45-54..	..	8	39	21	3	18
55-64..	..	5	31	17	2	13
65 and over	..	10	50	19	3	20
All ..	5	30	17	100	3	100
1954—						
18-24..	..	8	4	1	1	12
25-34..	..	1	8	11	4	16
35-44..	..	2	9	22	1	18
45-54..	..	2	12	15	1	22
55-64..	..	10	77	13	2	13
65 and over	..	6	42	13	1	20
All ..	3	24	13	100	1	100
1955—						
18-24..	..	5	178	3	9	8
25-34..	..	1	7	15	3	18
35-44..	..	2	12	13	4	18
45-54..	..	7	29	22	2	19
55-64..	..	14	60	23	3	15
65 and over	..	11	62	18	31	18
All ..	6	39	16	100	2	100

TABLE 34. Co-operative Holdings by Gross Income—Savings Surveys

Gross income (£)	Mean amount in Co-op. per I.U.		Mean Co-op. holding for I.U.s with account		Per- centage of income units with account	Per- centage of Co-op. holdings	Co-op. holdings as per- centages of total liquid assets	Per- centage of income units
	(£)	(£)	(£)	(£)				
1952—								
0-299	N.A.	N.A.	N.A.	N.A.	N.A.	38
300-599	N.A.	N.A.	N.A.	N.A.	N.A.	46
600-999	9	36	24	17	3	11
1,000 and over	7	63	11	5	..	4
All	6	25	22	100	3	100
1953—								
0-299	7	42	13	39	4	36
300-599	4	26	17	41	3	46
600-999	5	20	25	15	2	15
1,000 and over	8	59	15	6	1	4
All	5	30	17	100	2	100
1954—								
0-299	3	35	8	29	2	32
300-599	3	17	16	35	2	42
600-999	4	22	19	26	1	20
1,000 and over	6	75	9	10	..	5
All	3	24	14	100	1	100
1955—								
0-299	7	48	14	32	4	31
300-599	6	38	16	36	2	37
600-999	7	34	20	28	2	26
1,000 and over	4	31	14	4	..	6
All	6	39	16	100	2	100

TABLE 35. Co-operative Holdings by Liquid Assets—Savings Surveys

Liquid Assets (£)	Mean amount in Co-op. per I.U.	Mean Co-op. holding for I.U.s with account	Per- centage of income units with account	Per- centage of Co-op. holdings	Co-op. holdings as per- centages of total liquid assets	Per- centage of income units
(£)	(£)	(£)	(£)			
1952 ¹ —						
All	..	..	6	25	22	100
3	100					
1953—						
0-99	..	..	2	12	15	24
100-399	..	..	9	47	18	32
400-999	..	..	22	74	29	33
1,000 and over	..	..	13	96	14	11
All	..	..	5	30	17	100
3	100					
1954—						
0-99	..	..	1	8	13	21
100-399	..	..	7	40	17	41
400-999	..	..	6	45	13	16
1,000 and over	..	..	14	165	8	22
All	..	..	3	24	14	100
1	100					
1955—						
0-99	..	..	1	10	13	12
100-399	..	..	13	53	24	33
400-999	..	..	24	97	25	28
1,000 and over	..	..	14	107	13	26
N.A.	..	..	8	20	38	2
All	..	..	6	39	16	100
2	100					

(1) Detailed results are not available for 1952.

MINORITY REPORT

BY S. J. L. HARDIE

ON THE ORGANISATION OF THE
CO-OPERATIVE MOVEMENT
TO DERIVE THE
GREATEST POSSIBLE ADVANTAGE
FOR THE MOVEMENT

INDEX

PREAMBLE

I have carefully considered the Recommendations of my Colleagues in the light of the Terms of Reference and the information laid before the Commission. Unfortunately I do not believe that they will achieve what all of us on the Commission desire—"the greatest possible advantage to the Movement."

In the light of my own experience in handling large-scale competitive organisations, it is my view that the Recommendations put forward by my Colleagues will fail to provide successfully for the following points, all of which are urgently required and are decisive actions necessary to secure the objectives outlined in the Remit :

- (1) The co-ordination of the retail and the wholesale and manufacturing of the Co-operative Movement into a combined homogeneous retail, wholesale and manufacturing organisation.
- (2) The organisation of the combined retail, wholesale and manufacturing Co-operative undertaking into Specialist Divisions enabling technical experts in each branch of the divisions to direct the operation of the divisions.
- (3) The provision for the fullest employment of the whole financial resources of the Co-operative Movement for the development of all aspects of the combined retail, wholesale and manufacturing organisation.
- (4) The co-ordination of combined bulk purchasing of raw materials and consumer products for the retail, wholesale and manufacturing organisation represented to-day by a retail sales turnover of £900 million per annum.
- (5) The co-ordination of sales promotion and advertising of the combined retail, wholesale and manufacturing organisation to make full use of the sales power of the Co-operative Movement in the Chain Stores and in the Department Stores.
- (6) The organisation of the Co-operative Movement in Scotland into one combined retail, wholesale and manufacturing undertaking to be known as THE SCOTTISH CO-OPERATIVE SOCIETY LIMITED, and the similar organisation for England and Wales, to be known as THE

CO-OPERATIVE SOCIETY LIMITED OF ENGLAND AND WALES.

- (7) The double tier structure of organisation both for England and Wales and for Scotland—
 - (i.) The representation of the Shareholder Members on the Councils at all levels up to the Central Co-operative Councils ;
 - (ii.) The technical management of both societies at all levels up to the Central Boards of Management.

Any scheme which is to be of lasting benefit to the Movement ought to make successful provision for these matters. A sound scheme must be based on solid principles from the outset.

I, therefore, offer an alternative series of recommendations which, in the light of experience, I judge to be calculated to extend and to develop to the highest advantage the existing valuable assets and the future potentialities of the Movement.

I believe these proposals do make provision for the points referred to. My proposals are set out under the following SIX main heads and EIGHT Appendices.

MAIN HEADS

- I. Historical development.
- II. Part played in the past by Shareholder Members.
- III. Changing conditions.
- IV. Recommendations under two heads :—
 - Scotland.
 - England and Wales.
- V. Summary of Recommendations :—
 - (1) Two integrated organisations—
 - Scotland.
 - England and Wales.
 - (2) Double tier structure of organisations—
 - (i.) Representation of the Shareholder Members in councils :—
 - Scotland.
 - England and Wales.
 - (ii.) Technical Boards of Management :—
 - Scotland.
 - England and Wales.
 - (3) Financial Resources.
 - (4) Purchasing power.
 - (5) Sales power.
 - (6) Goodwill of Movement.
 - (7) Operation Departments :—
 - Scotland : 12 Specialist Divisions.
 - England and Wales : 12 Specialist Divisions.
- VI. Relationships of The Co-operative Society Limited of England and Wales and The Scottish Co-operative Society Limited.

APPENDICES

- A. Congress Terms of Reference.
- B. Scotland : Recommendations.
- C. Scotland : Procedure by Six Stages to carry out Recommendations.
- D. Scotland : Structure of Organisation.
- E. England and Wales : Recommendations.
- F. England and Wales : Procedure by Six Stages to carry out Recommendations.
- G. England and Wales : Structure of Organisation.
- H. Statistics for Retail Societies in 1956.

I.—HISTORICAL DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT

The ideals of Co-operation go back into past generations. While the first Co-operative experiments originated in the 18th century it was not until the middle of the 19th century that the Co-operative Movement as we know it to-day was evolved and developed. Since the passing of the first Friendly Society Act of 1846, and the formation of wholesale societies in the 1870's and with the subsequent development into the manufacturing side, the Movement has expanded continuously to its present dimensions.

The retail co-operative societies founded in the middle of the 19th century were conceived to meet in competition the small retail shops which were charging high prices and were operated for the private profit of the individualist.

As the retail co-operative movement developed, the societies were able to get consumer capital resources and so expand in competition with the small retail trader of that period.

The retail co-operative movement was the first to initiate the development of Chain Stores and finally Department Stores with efficient organisation and service to the co-operative consumer. In the same way the retail co-operative movement has initiated in this country self-service stores.

The retail co-operative movements have been operated in England and Wales or in Scotland as individual societies, and in the beginning of this century there were over 1,400 individual societies, and even despite the processes of amalgamation and absorption there were, in 1957, still 749 societies in England and Wales, and 183 societies in Scotland.

On the other hand, the retail societies in England and Wales were served by one co-operative wholesale society, and, in Scotland by one Scottish co-operative wholesale society—and this is the position to-day.

The original conception of the growth and management of the Co-operative Movement was that it should be by small societies with part-time committees elected from the Shareholder Members of the societies. This has to a large extent altered with the expansion of societies into bodies representing large numbers of Shareholder Members—in some cases, especially in the English cities, over 100,000 members—and with the expanding technical nature of the management

the percentage of Shareholder Members taking an active interest in the management of the societies has steadily fallen as a result of the apathy of members until, to-day, it represents only 0.5% of the members. The actual management has devolved to a large extent on the full-time technical management.

II.—PART PLAYED IN THE PAST BY SHAREHOLDER MEMBERS

The Shareholder Members have in the past played an outstanding part in the expansion and development of the Co-operative Movement, not only in the "retail" but also in the "wholesale" with its manufacturing organisation.

Many individual retail societies within the limits of their organisation have been successfully and efficiently operated for many years: on the other hand, many may not have been operated so efficiently.

Since 1939 the sales turnover has shown a continuous expansion. For England and Wales the sales for 1956 were over £753,000,000, and for Scotland over £143,000,000—more than three times the sales for 1939 before the war.

The surplus earnings in 1956 after meeting interest on share capital amounted, for England and Wales, to over £45,000,000—equal to 1s. 2.24d. per £ of sales and, for Scotland, to over £12,000,000—equal to 1s. 8.22d. per £ of sales.

Changes in price limits must however be borne in mind in comparing pre-war figures and 1956 figures, but in real terms there has been a substantial advance in the turnover.

Surplus earnings, after meeting interest on share capital, vary considerably in individual societies, ranging from 2s. 6d. per £ of sales to around 1s. per £ in many societies, and, in some societies, to under 6d. per £ of sales.

III.—THE CHANGING CONDITIONS OF INDUSTRY

The competition by the Co-operative Movement and by private enterprise multiple stores has taken a heavy toll on the small and individual retail units during this century, and the changing commercial industrial and economic conditions and outlook, particularly

since the war—the continuous absorption of *competitive* retail units into retail, wholesale and manufacturing combines—make it increasingly difficult for a retail unit or a wholesale unit or a manufacturing unit in private enterprise or in the Co-operative Movement to retain its position in the consumer markets of this country unless integrated in a *combined* organisation.

The absorption of individualist capital stores into multiple stores, and finally into an integrated retail, wholesale and manufacturing combine, is a sign of the times.

The competition of these retail, wholesale and manufacturing combines applies equally against one another, against the capitalist multiple stores or individualist store, and against the Co-operative Movement as at present constituted.

Much has been said or written in the Co-operative Movement on the retail, wholesale and manufacturing organisation in the last quarter of a century, and especially since the war, culminating in the "Terms of Reference to the Independent Commission."

IV.—RECOMMENDATIONS

I fully appreciate the vast nature of the organisation of the Co-operative Movement, and it is not my intention to criticise any individual unit or organisation built up in the circumstances as outlined and with the disabilities of the past. Rather, it is my aim to put before you a comprehensive scheme of reorganisation which, in my view, would solve many of the difficulties of to-day and enable the Movement to go forward from strength to strength. This comprehensive scheme would be implemented by stages, and it is not dependent on every society, large or small, coming in immediately. The future expansion or development will be a gradual long-term policy.

I submit my Recommendations under two heads:—

- (1) The retail societies of Scotland and The Scottish Co-operative Wholesale Society Ltd. (S.C.W.S.).
- (2) The retail societies of England and Wales and The Co-operative Wholesale Society Ltd. (C.W.S.).

I do so because the Scottish Zone, organised into 183 individual retail societies, representing over 1,365,000 Shareholder Members, with its own wholesale society and its manufacturing organisation is, in my view, the optimum size of zone unit to exemplify in broad terms my Recommendations. On the same principle, England and Wales organised into 749 individual retail societies representing over 10,551,000 Shareholder Members, would require to be subdivided into eight or more zones corresponding in scale to the Scottish Zone, but it has at present only one wholesale society with its manufacturing organisation to serve the eight or more zones in England and Wales.

The Recommendations put forward by me are designed to secure the greatest possible advantage to the Co-operative Movement. The scheme of organisation is, in my view, the best method of achieving the objective outlined in the Remit to the Independent Commission.

These Recommendations are given fully in Appendices for Scotland and for England and Wales, under two heads:—

- (1) Recommendations in detail.
- (2) Procedure by stages to carry into effect the Recommendations.

I will summarise these Recommendations so that the Shareholder Members of the Movement may fully appreciate them. This summary is under seven heads.

V.—SUMMARY OF RECOMMENDATIONS

(1) Two Integrated Organisations : Scotland, England and Wales.

The Co-operative Movement of the future, if the Movement is to fulfil its functions to the co-operative consumers, must be a complete integrated retail wholesale and manufacturing organisation under one body in Scotland—THE SCOTTISH CO-OPERATIVE SOCIETY LTD., and one body in England and Wales—THE CO-OPERATIVE SOCIETY LTD. OF ENGLAND AND WALES.

Only by such integration will they be able to retain their position and meet the competition of retail wholesale and manufacturing combines.

(2) Double Tier Structure of Organisation

By such integration a double tier structure of organisation can be secured :—

- (i.) *The Representation of the Shareholder Members :*
 - (a) The Local District Advisory Co-operative Councils.
 - (b) The Area Co-operative Councils.
 - (c) The Zone Co-operative Councils and, in the case of Scotland, the Central Co-operative Council of The Scottish Co-operative Society Ltd.
 - (d) The Central Co-operative Council of The Co-operative Society Ltd. of England and Wales.

It is essential that the rank and file consumer members should as a body, through these councils, have an important say in the Co-operative Movement of the future.

- (ii.) The Technical Boards of Management :*

- (a) The Area Boards of Management.
 - (b) The Zone Boards of Management which, in the case of Scotland, becomes The Central Board of Management of The Scottish Co-operative Society Ltd.
 - (c) The Central Board of Management which, in the case of England and Wales, becomes The Central Board of Management of The Co-operative Society Ltd. of England and Wales.

These Central Boards of Management are responsible to The Central Co-operative Councils, and the Shareholder Members, for the management of the integrated organisations in Scotland and in England and Wales.

By such an organisation the day-to-day management can be decentralised into Areas where the sales turnover is around £20,000,000 per annum, and with Shareholder Members of around 200,000 (with the exception of certain large city areas where it would be larger).

This management organisation gives the necessary promotion incentive to the personnel throughout the Movement. The aim should be to promote the management in all branches and divisions of the Movement from within the organisation taking into consideration training, experience, enterprise and initiative, and to retain the

personnel by loyalty and competitive remuneration according to the levels of responsibility and experience.

It is essential to have such an organisation to meet the competition of retail wholesale and manufacturing combines.

(3) Financial Resources

This integration enables the *combined financial resources* to be used for the fullest development of all aspects of the retail, the wholesale and the manufacturing organisation.

This is *essential* if the shareholder consumers are to earn a surplus commensurate with the capital employed, and with the volume of retail sales which last year, in Scotland, amounted to over £143,000,000, and, in England and Wales, over £753,000,000.

Provision is made in the Recommendations to set up special committees of the two new societies along with financial experts to review the financial resources and requirements of the societies. The aim is to provide in the future for the fullest protection and security to the Shareholder Members for their share capital.

(4) Purchasing Power

The co-ordination of combined bulk purchasing of raw materials and consumer products for the retail, wholesale and manufacturing organisation, represented by a retail sales turnover of £900-million, would enable the full weight of the purchasing power to be effective.

(5) Selling Power and Advertising

It provides for the full weight of the selling power of retail to co-operative consumers, enabling sales promotion and advertising to be co-ordinated ; products advertised to be available in all retail stores, and advertising to play its full part in sales promotion.

(6) Co-operative Goodwill

Only by such integration can the full weight of the Co-operative Goodwill be secured and enhanced throughout the length and breadth of the country. Goodwill can easily be lost in one area and so damage the rest of the Movement.

(7) Operation Departments

The structure of organisation enables the Operation Departments to be divided into Specialist Divisions of Chain Stores and Department Stores covering groceries and provisions and other food products, dry goods and other services with Co-operative expert management in all divisions of the Boards of Management.

Specialist Divisions :

The organisation of an Operation Department with 12 or more Specialist Divisions is one of the major Recommendations to enable the Movement to meet the competition of the large combines in each of the Specialist Divisions.

The retail service units include the following consumer facilities which have to be allocated into the 12 or more Specialist Divisions :-

Food

Bread and Bakery.
Butchering.
Confectionery.
Dairy.
Fish.
Fruit and Vegetables.
Grocery and Provisions.
Hotels, Restaurants and Catering.

Dry Goods and Other Services

Books and Papers.
Chemists and Opticians.
Clothing, Drapery and Outfitting.
Footwear.
Furniture and Fittings.
Garages and Funeral Undertaking.
House Furnishing, Carpets and Linoleum.
Ironmongery and Hardware.
Laundries, Cleaning and Dyeing.
Radio and Electric.
Tobacco, Cigarettes and Smokers' Products.

In 1956

Groceries and Provisions represented .. .	53%
Other Food Products represented .. .	22%
Dry Goods and other Services represented ..	25%
<hr/>	
	100%

The organisation of these 12 or more divisions by the Central Board of Management is one of the special problems in Scotland for The Scottish Co-operative Society Ltd., and for The Co-operative

Society Ltd. in England and Wales. It covers not only the Chain Stores of each division but Department Stores incorporating various divisions under the management of each Department Store. The co-ordinating of the management of the Department Stores will require special consideration.

The AIM of the new organisation is to expand the sales by competitive enterprise and to bring the least efficient up to the greatest efficiency.

The organisation of the combined retail wholesale and manufacturing Co-operative undertaking into Specialist Divisions, enabling technical experts in each branch of the divisions to direct the operation of the divisions, is extremely important.

It is essential that the Co-operative retail and wholesale with its manufacturing side should be integrated in the same way as other competitive retail, wholesale and manufacturing capitalistic combines if they are to maintain their sales position, and more so if they are to develop into other food and dry goods divisions where they have a small, and in some cases, a declining share of the market.

It is only by integration and management that retail, wholesale and manufacturing units can survive in this generation of expanding competitive enterprise.

VI.—RELATIONS BETWEEN ENGLAND AND WALES AND SCOTLAND

The procedure outlined to carry into effect fully the Recommendations will, particularly in England and Wales, take time.

When the structure of organisation is complete, consideration can be given by The Scottish Co-operative Society Ltd. and The Co-operative Society Ltd. of England and Wales, to the federation of these two societies.

APPENDIX "A"

The terms of reference of the Commission were contained in the resolution of the 1955 Co-operative Congress, as follows :—

INDEPENDENT COMMISSION

Preamble :

"That this Congress notes the changing pattern in retail distribution in Great Britain with the continued growth of large-scale retailing under national control, and having received the report of the Central Executive on the outcome of joint discussions between The Co-operative Wholesale Society Ltd., The Scottish Co-operative Wholesale Society Ltd., and The Co-operative Productive Federation Ltd. on the subject of co-operative production and marketing, agrees in principle that more decisive action is necessary if progress is to be made towards securing the utmost advantage from Co-operative productive resources.

RESOLVES :

Clause (1)

"THAT the Central Executive shall establish by invitation an Inquiry Commission of suitable persons not engaged in Co-operative management or administration, who shall be charged with the responsibility of surveying the whole field of Co-operative production and marketing, both wholesale and retail.

Clause (2)

"THAT the Inquiry Commission shall prepare and submit to the Central Executive for submission not later than the Congress to be held in 1958, a report and recommendations designed to secure the greatest possible advantage to the Movement from its manufacturing, wholesale and retail resources, and to propose to the Central Executive such methods and organisation as may be thought best suited to achieve this. Meanwhile, if the Commission desires to submit Progress Reports, then it will be competent for it to do so.

Clause (3)

"THAT all members of the Union should supply such information and advice and render such assistance as the Inquiry Commission may request.

"THAT all members of the Co-operative Union Ltd. be allowed to make written submissions and give oral evidence in support of their submissions if required by the Commission.

Clause (4)

"THAT the Central Executive be authorised to meet the costs of the Commission, and to provide such facilities as may be necessary for the accomplishment of its task."

APPENDIX "B"

SCOTLAND : RECOMMENDATIONS

The following are my Recommendations and a broad outline of the structure of management of THE SCOTTISH CO-OPERATIVE SOCIETY LTD., it being left to the Central Board of Management, the Area Boards of Management and the Executive down the line of control to implement the details of sound commercial practice.

These Recommendations would require to be implemented in stages, and Appendix "C" is the procedure to carry into effect by stages the organisation of the Scottish Zone into an integrated retail, wholesale and manufacturing unit under The Scottish Co-operative Society Ltd.

I. THAT the Co-operative Movement in the Scottish Zone be integrated into one unit which will be known as THE SCOTTISH CO-OPERATIVE SOCIETY LTD.

The Scottish Co-operative Society Ltd., will have one membership for Scotland, and the members of the individual societies will be invited to become members of the new Scottish society. The members of the individual societies will be invited to exchange their share capital and loan capital in their societies into the new Scottish Co-operative Society Ltd. which will accept responsibility for it to all the members of the Scottish society.

The Scottish Co-operative Society Ltd. will, on the requisite transfer of members to the new society, take over the assets and liabilities of each of the retail societies.

The Scottish Co-operative Society Ltd. (the new society) will take over the assets and liabilities of The Scottish Co-operative Wholesale Society Ltd.

Both the "retail" and the "wholesale" with its manufacturing organisation, have in the past played an outstanding part in the expansion and development of the Co-operative Movement in Scotland. The changing economic outlook, particularly since the war, and the continuous absorption of competitive retail units in retail, wholesale and manufacturing combines, make it increasingly difficult for a retail unit or a wholesale unit or a manufacturing unit to retain its position in the consumer markets of this country unless linked up in a combined organisation.

It is *essential* that the Co-operative "retail" and "wholesale" with its manufacturing side, should be linked together in the same way as other competitive retail, wholesale and manufacturing combines. This is required if only to maintain their sales share in the grocery and provision division of retail where, perhaps, they have a fair share in certain districts, but more so if they aim to develop into the other food and dry goods divisions where they have a small and in some cases a declining share of the market.

Organisation

II. THAT the organisation of the new Scottish Co-operative Society be under two heads :—

- (i.) The representation of the Shareholder Members, in Local District Advisory Councils, in the six or more Area Co-operative Councils, and in the Central Co-operative Council :
- (ii.) The Executive and Technical Management of The Scottish Co-operative Society Ltd. by a Central Board of Management and six or more Area Boards of Management responsible to the Central Board of Management.

Charts showing the proposed organisation of The Scottish Co-operative Society Ltd. are given on pages 298-300.

The following is a more detailed outline of the organisation under these two heads.

(i.) REPRESENTATION OF THE SHAREHOLDER MEMBERS : SHAREHOLDERS' CO-OPERATIVE COUNCILS

I will deal first with the organisation of the Shareholder Members or consumers' representation, which is the outstanding feature of the

Co-operative Movement, and my aim is to secure for them the fullest representation and influence in :—

- (a) The Local District Advisory Co-operative Councils.
- (b) The six or more Area Co-operative Councils.
- (c) The Central Co-operative Council of the Shareholders in the Scottish Zone.

I. THAT Local Advisory Councils be elected in each local district and be the link from the Shareholder Member to the six Area Co-operative Councils in the Scottish Zone.

As a first step it would probably be advisable to elect the local committees of the individual societies to these local councils.

II. THAT six Area Co-operative Councils be elected by the Shareholder Members of the areas annually, and that these councils should comprise six or more members.

Until the organisation is running, it might be necessary to have larger Area Councils to enable outlying districts to be represented.

III. THAT the Area Co-operative Councils meet quarterly to receive the Report of the Area Board of Management. The Area Councils would be the link with the Central Co-operative Council in the Scottish Zone.

IV. THAT the Central Co-operative Council be elected by the Area Councils annually, or the Area Shareholder Members, and that there be a full-time chairman and 12 or more part-time members.

Until the organisation is running, it might be necessary to have a larger Central Co-operative Council to enable areas to be fully represented.

This body, the Scottish Central Co-operative Council, represents the whole of the Shareholder Members in the Scottish Zone, and it is essential that the Shareholder Members should have an important say in the Movement through the Central Council, the Area Councils, and the Local District Advisory Councils.

V. THAT the Central Co-operative Council meet the Central Board of Management half-yearly to receive their report. The chairman, as a full-time member of the Central Co-operative Council, would keep in close touch with the Central Board of Management.

VI. THAT an Annual General Meeting of the delegates of the Shareholder Members should be held annually to receive—

- (a) The Report of the Central Co-operative Council.
- (b) The Report of the Central Board of Management.
- (c) The Balance Sheet and Accounts of The Scottish Co-operative Society Ltd.

VII. THAT the Central Co-operative Council be the link between The Scottish Co-operative Society Ltd. and The Co-operative Union Ltd.

(ii.) EXECUTIVE AND TECHNICAL MANAGEMENT

I will next deal with the organisation of the Executive and Technical Management of The Scottish Co-operative Society Ltd.

Central Board of Management

I. THAT the Management of The Scottish Co-operative Society Ltd. be by a Central Board of Management incorporating the retail and the wholesale and the manufacturing organisation in the Scottish Zone.

This body will be responsible to the Central Co-operative Council and to the Shareholder Members for the management of the integrated organisation in the Scottish Zone. It is essential to have such a body to meet the competition of retail, wholesale and manufacturing combines.

II. THAT a Central Board of Management consisting of a full-time chairman and 10 or more full-time technical directors be responsible for the management of the society.

III. THAT the chairman and the first Central Board of Management will be appointed by the Central Co-operative Council, and will retire in rotation yearly. Their re-appointment and casual vacancies filled up during the year will fall to be confirmed by the Central Co-operative Council at the Annual General Meetings of the Shareholder Members.

Chairman of Central Board of Management

The chairman would be responsible for the co-ordination of the management of The Scottish Co-operative Society Ltd. and would be the link between the Central Board of Management and the Area Management Boards. It may be necessary to appoint a deputy chairman who would assist the chairman in his duties.

Central Organisation

The Central Board will be responsible for—

- (a) The organisation of the Central Headquarters and Departments.
- (b) The organisation and co-ordination of the Areas under the Area Boards of Management.

The Central Organisation will comprise—

Departments for Finance and Administration.

Operation Department to deal with organisation of Specialist Divisions for retail, wholesale and manufacturing.

Departments to deal with transport and special services.

Departments to deal with special committees—home and overseas co-ordination.

Finance and Administration

A director will be in charge of these departments, and will be responsible to the Central Board of Management.

Finance Department

The Finance Department will co-ordinate the whole of the finances of the organisation including the Area finances, the finances of subsidiary companies, the finances of The Scottish Co-operative Bank which will be operated as a bank and a separate unit, and their interest in the finances of the E. & S. Joint Society and the Co-operative Insurance Society (jointly owned).

This Department will focus the finances for the future development of the retail, wholesale and manufacturing for the Scottish Zone.

The capital of the Movement in the Scottish Zone is provided by the Shareholder Members in share capital and loan capital and by reserves set aside out of surplus earnings, all of which is at call or short notice except reserves.

The capital is invested to a large extent in heritable property, shops, stores, and stocks of merchandise throughout the zone, which, of course, are not realisable to a large extent at call.

IV. THAT a Special Committee of the new society, along with financial experts, be set up to review the financial structure, with a view to providing in the future the fullest protection and security to the Shareholder Members for their share capital.

Administration Department

The Administration Department will be responsible to the Central Board of Management for Headquarters Administration and for the co-ordination of the Area Administration.

Operation Department

This Department covers Co-operative consumer products and services for the Co-operative Shops and Department Stores in the Scottish Zone.

The organisation in the Scottish Zone of an Operation Department with 12 or more Specialist Divisions of Chain Stores and Department Stores covering groceries and provisions and other food products, dry goods and other services with Co-operative expert management in all divisions of the Central Management and the Area Management is one of the major Recommendations to enable the Movement to meet the competition of large combines in each of the divisions.

The retail service units include the following consumer facilities, which have to be allocated into the 12 or more Specialist Divisions :—

Food—

Bread and Bakery.
Butchering.
Confectionery.
Dairy.

Fish
Fruit and Vegetables.
Grocery and Provisions.
Hotels, Restaurants and Catering.

Dry Goods—

Books and Papers.
Chemists and Opticians.
Clothing, Drapery and Outfitting.
Footwear.
Furniture and Fittings.
Garages and Funeral Undertaking.

House Furnishing, Carpets and Linoleum.
Ironmongery and Hardware.
Laundries, Cleaning and Dyeing.
Radio and Electric.
Tobacco, Cigarettes and Smokers' Products.

The Department will be divided into Specialist Divisions covering these facilities, so that the Scottish Zone has, say, 12 or more groups of Specialist Chain Stores for these consumer services. Grocery and provision shops are the main part of the Co-operative services in the Scottish Area at present, with other food shops in many cases alongside.

The first Specialist Division will be Grocery and Provisions, with divisions covering the other food products, and divisions covering dry goods products, corresponding in many cases with competitive chain stores. There may be certain overlapping in some products sold in more than one division, but each division will co-operate with the other divisions in this and in the Department Stores covering various division products.

The co-ordination of the management of the Department Stores will require special consideration.

The object is to co-ordinate each Specialist Division of Chain Shops and Stores, such as, say, the Grocery and Provisions, as the most efficient unit from the point of view of shop position, shop window display, choice of product, quality, service and price. This efficiency will cover every like shop in the Scottish Zone. A similar organisation and efficiency will apply likewise to each of the other Specialist Divisions.

Each Specialist Division is responsible for retail wholesale and manufacturing resources of its division for the Scottish Zone.

The relative importance of the retail or the wholesale or the manufacturing including the raw materials, varies in each division but in no division is the integrated retail, wholesale and manufacturing more important than in the food trades where it represents 75% of the £900-million of sales turnover of retail societies.

Each Specialist Division will have Sub-Departments for raw materials, bulk purchasing, merchandise, manufacturing, sales and distribution for the Scottish Zone.

The AIM of this organisation is to ensure—

THAT the full weight of the purchasing power of "retail" be used to control the wholesale purchases in the world markets and to manufacture, if it is so desired, a proportion of consumer products from, if necessary, the raw materials through the various stages and distribute the products to the Co-operative consumer. It is for the integrated organisation to decide which products are to be so treated. It is not essential to so handle 100% of such products, but the manufacturing unit should operate at as near as possible 100% of its capacity.

THAT the full weight of the selling power of "retail" should be used to enable sales promotion and advertising to co-operate in bringing the consumer products before the Co-operative public so that the products advertised are available in all retail Chain Stores, thus enabling advertising to play its full part in sales promotion.

Directors of the Central Board of Management will be in charge of each of these Specialist Divisions, and will be responsible to the Central Board of Management.

Transport and Special Services

A director will be in charge of departments for the Central transport and special services of Central Headquarters.

Home and Overseas Co-ordination

A director will be in charge of these departments, and will act on the boards of home and overseas subsidiaries, and on the joint E. & S. Boards.

The directors of the Central Board will co-operate with the directors of the Area Boards in their corresponding Departments or Divisions.

Individual directors of the Central Board will not have functional control over Area directors or management.

Directives from the Central Board will be by the Central Board as a body to the Area Board as a body, through the chairman of the Central Board to the chairman of the Area Board or as the Central Board may direct.

Area Board of Management

I. THAT the Scottish Zone be divided into six or more Management Areas—

- (i.) East of Scotland and Border Counties.
- (ii.) Glasgow and Western.
- (iii.) Ayr and South-Western.
- (iv.) Lanark and Central Lowlands.
- (v.) Fife, Stirling and Falkirk.
- (vi.) Northern.

The schedule of societies to be incorporated in the six areas is shown in Co-operative Statistics for 1956.

This decentralisation is essential to provide the day-to-day management. Each area will have a sales turnover of around £20,000,000 and a Shareholder Membership of around 200,000, with the exception of two of the city areas which are larger.

II. THAT each Area will have an Area Board of Management consisting of a chairman and six or more full-time directors.

III. THAT the Area Board be responsible to the Central Board for the management of the Area as laid down by the Central Board scheme of management for the area.

Functional control of the Area Management will be by the delegation of the Area Board of Management to executives and managers.

Chairman

The chairman of the Area Board of Management will be responsible for the co-ordination of the management of his Area, and will be the link between the Central Board and the Area Board of Management.

Area Organisation

The Area organisation will comprise Departments to deal with—

- (a) Finance and Administration of the Area including Personnel.
- (b) Operation Department to deal with the organisation of Specialist Divisions of Shops and Stores.
- (c) Area transport.

Finance and Administration

An Area director or executive will be responsible for this department to the Area Board of Management.

Operation Department

This Department covers Co-operative consumer products and services for the Co-operative Shops and Department Stores in the Area.

The retail service units include the consumers' facilities outlined in the Central Board of Management (pp. 291) and, in addition, local manufacturing units such as aerated waters, ice cream, local bakery, local creamery and perishable products for direct supply to Specialist Stores in Areas.

This Area Operation Department will be divided into Specialist Divisions covering these facilities, so that the Areas have 12 or more groups of Specialist Chain Stores covering these consumer services.

Grocery and provision shops are the main part of the Co-operative service in the Areas at present, with other food shops adjoining.

The *first* Specialist Division will be Grocery and Provisions with divisions covering the other food products, and divisions covering dry goods products.

There may be certain overlapping in some products sold in more than one division but each division will co-operate with the other divisions in this and in the Department Stores covering other division products.

Each Specialist Division will have Sub-Departments for purchases, merchandise, sales and distribution.

Area directors will be in charge of each of these Divisions, and will be responsible for the detailed management to the Area Board of Management.

Area Transport

An Area director or executive will be responsible for this Department to the Area Board of Management, and will co-ordinate the transport for other departments of the Area.

APPENDIX "C"

SCOTLAND : PROCEDURE BY SIX STAGES

The procedure to carry into effect the organisation of The Scottish Co-operative Society Ltd. into an integrated retail, wholesale and manufacturing unit will be by SIX stages.

The FIRST stage is the legal preparation of the Constitution and Rules and Regulations of The Scottish Co-operative Society Ltd. and the registration of the society.

The SECOND stage is the setting up of the structure of organisation of The Scottish Co-operative Society Ltd. under the two heads—

- (i.) The representation of the Shareholder Members in the local District Advisory Councils in the six Area Councils and in the Central Co-operative Council and in the election of the first representatives.
- (ii.) The Executive and Technical Board to form the Central Board of Management and the Executive and Technical Boards to form the six Area Boards of Management and the appointment of the first boards.

The THIRD stage is the absorption of The Scottish Co-operative Wholesale Society Ltd. at a date to be fixed, say, January 1st, 1959, into The Scottish Co-operative Society Ltd. by a transfer of engagements.

The FOURTH stage is the transfer of engagements by the individual retail societies to The Scottish Co-operative Society Ltd. at a date to be fixed, say, January 1st, 1959.

The FIFTH stage is the bringing into operation of the new organisation at a date to be fixed, say, January 1st, 1959. The responsibility will then fall on the Central Board of Management to continue the old management organisation where it is deemed necessary until the new organisation is in full operation.

The SIXTH stage is the gradual long-term development of the management into Specialist Divisions.

To carry into effect the first and second stages, it is suggested that a joint meeting be held of representatives of the retail societies in Scotland and the directors of The Scottish Co-operative Wholesale Society Ltd. This meeting would be in a unique position to decide on the future organisation of the Co-operative Movement in Scotland as the large majority of the capital of The Scottish Co-operative Wholesale Society Ltd. is held by the retail societies.

At this meeting it is suggested that—

- (a) A small legal committee of, say, three be set up to carry out Stage 1.
- (b) A larger committee (but not a large one) be set up to carry out Stage 2.

These committees would then report back to a further joint meeting.

At the adjourned joint meeting the two committees would report, and if the reports were adopted, meetings will be held of the Shareholders of The Scottish Co-operative Wholesale Society Ltd. and the Shareholders of the individual retail societies at which the necessary resolutions would be put forward to carry into effect Stages 3 and 4 and to fix the date, say, January 1st, 1959.

On the passing of these resolutions by the requisite majority, Stage 5 would automatically come into operation on the date fixed and Stage 6 commence but is a gradual long-term development.

The following notes are put forward for the consideration of the committees :

It is suggested that the first local District Advisory Councils should be the present committees of each retail society.

It is suggested that the first Area Co-operative Councils should be made up of one member for each society with over 10,000 members, two members for each society with over 30,000 members, three members for each society with over 60,000 members, four members

for each society with over 100,000 members, and that societies with under 10,000 members jointly have a corresponding number of members.

This would give first Area Councils of approximately, in total, 70 members, the members to retire in each Area by rotation and be elected annually by the Shareholder Members in each Area.

It is suggested that the first Central Co-operative Council should be made up from each Area of one member for each 100,000 Shareholder Members, and it is suggested that the United Co-operative Baking Society Ltd. should have one member.

This will give a first Central Co-operative Council of 11 members with a full-time chairman to be appointed by the Central Co-operative Council.

The members of the Central Co-operative Council will retire by rotation and will be elected by the Area Co-operative Council or the Shareholder Members of the Areas annually.

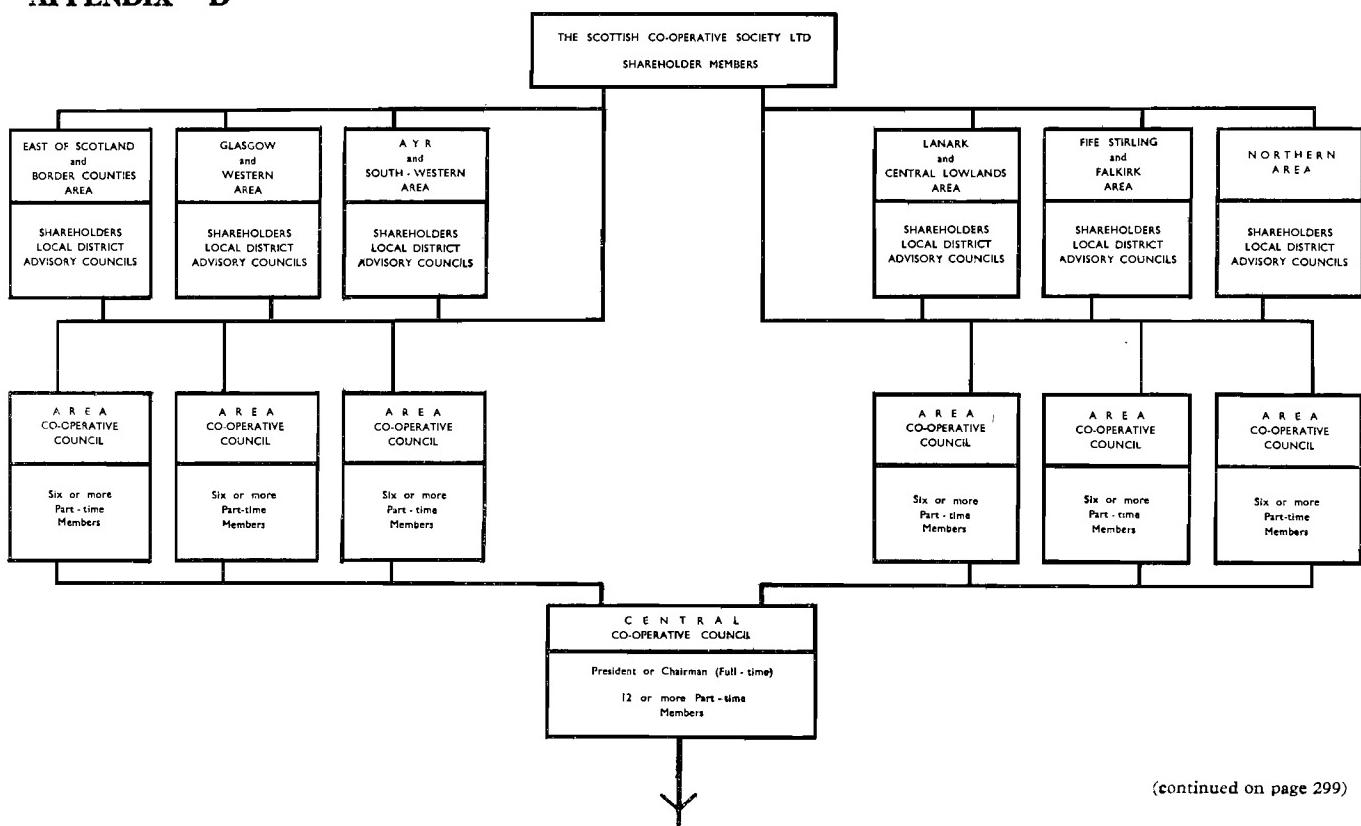
It is suggested that the first Central Board of Management should consist of—

- (a) Two technical directors each from the Edinburgh and Eastern Area, and from the Glasgow and Western Area and one from each of the other Areas, making in all eight directors from the Areas.
- (b) The chairman and six technical directors from The Scottish Co-operative Wholesale Society Ltd., but during the first period the present board be appointed until the directors are reduced to six members by automatic retirements or by compensation for loss of office.
- (c) One technical director from The United Co-operative Baking Society Ltd.

It is suggested that the directors of the Central Board of Management will retire by rotation one-third annually; their reappointment will fall to be confirmed by the Central Co-operative Council at the Annual General Meeting of Shareholder Members. Casual vacancies filled during the year by the board will also fall to be confirmed by the council at the Annual General Meeting.

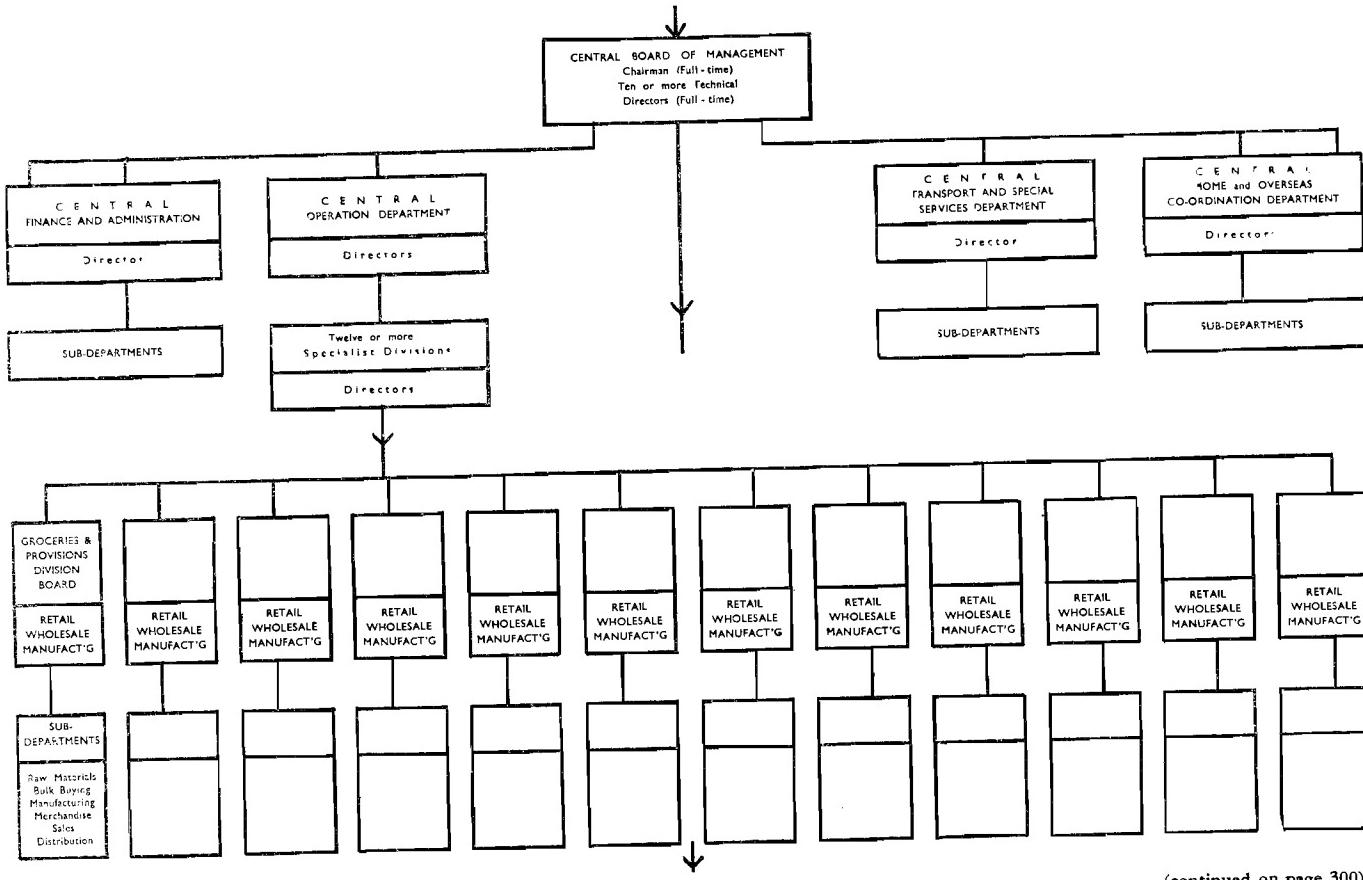
APPENDIX "D"

STRUCTURE OF ORGANISATION OF THE SCOTTISH CO-OPERATIVE SOCIETY LTD.

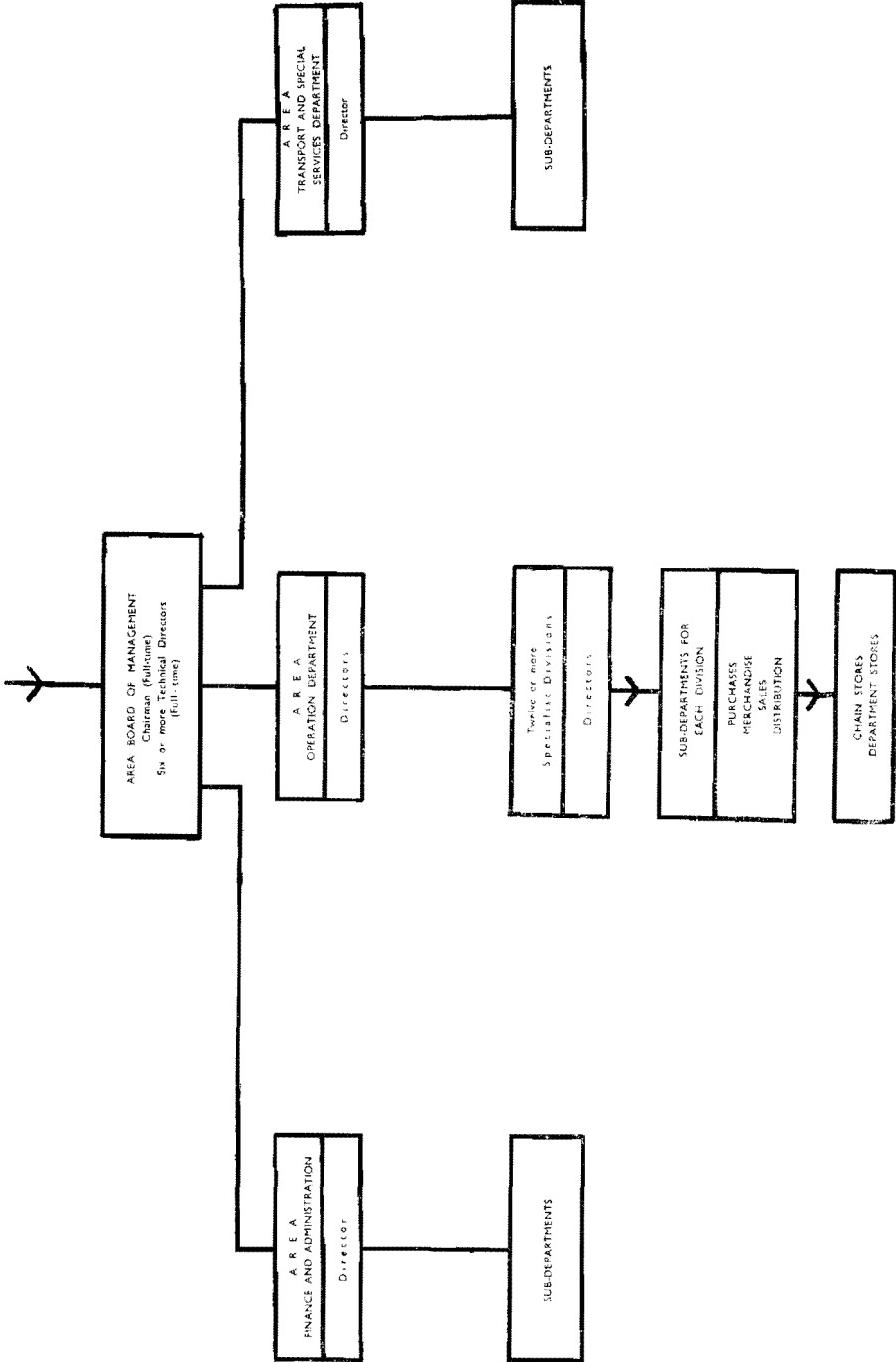


(continued on page 299)

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(continued on page 300)



APPENDIX "E"

ENGLAND AND WALES

I will next deal with ENGLAND and WALES, and their subdivision into the eight or more zones corresponding to the Scottish Zone :—

- (i.) Northern.
- (ii.) North-Eastern.
- (iii.) North-Western.
- (iv.) Midland.
- (v.) Southern A.
- (vi.) Southern B.
- (vii.) South-Western.
- (viii.) Western.

It may be advisable, however, to sub-divide the North-Western and the Midland zones into three zones instead of two, to allocate part of the Midland zone to the Western and part of the Southern zone to the South-Western, and to re-allocate some other societies into adjoining zones to synchronise zone and area management.

Recommendations

In the Recommendations for England and Wales, the only difference is the grouping of the eight zones into one central body to be known as THE CO-OPERATIVE SOCIETY LTD. OF ENGLAND AND WALES, with the necessary additional build up of the structure of the organisation of this society.

The following are my Recommendations and a broad outline of the structure of management of The Co-operative Society Ltd. of England and Wales.

The carrying into effect of these Recommendations will require to be implemented in stages, and Appendix "F" is the procedure by stages to carry into effect these Recommendations.

I. THAT the Co-operative Movement in England and Wales be integrated into one unit which will be known as THE CO-OPERATIVE SOCIETY LTD. OF ENGLAND AND WALES.

The Co-operative Society will have one membership for England and Wales, and the members of the individual societies will be invited to become members of the new Co-operative Society. The members of the individual societies will be invited to exchange their share capital and loan capital in their societies into the new Co-operative Society, which will accept responsibility for it to all members of the society.

The Co-operative Society will, on the requisite transfer of members to the new society, take over the assets and liabilities of each of the retail societies.

The Co-operative Society will then own the majority of shares of The Co-operative Wholesale Society Ltd.

The Co-operative Society Ltd. (the new society) will take over the assets and liabilities of The Co-operative Wholesale Society Ltd.

Both the "retail" and the "wholesale" with its manufacturing organisation, have in the past played an outstanding part in the expansion and development of the Co-operative Movement in England and Wales. The changing economic outlook, particularly since the war, and the continuous absorption of competitive retail units in retail, wholesale and manufacturing combines, make it increasingly difficult for a retail unit or a wholesale unit or a manufacturing unit to retain its position in the consumer markets of this country unless linked up in a combined organisation.

It is *essential* that the Co-operative "retail" and the "wholesale" with its manufacturing side, should be linked together in the same way as other competitive retail, wholesale and manufacturing combines. This is required if only to maintain its sales share in the grocery and provision division of retail where, perhaps, they have a fair share in certain districts but more so if they aim to develop into the other food and dry goods divisions where they have a small and in some cases a declining share of the market.

II. THAT the organisation of the new Co-operative Society Ltd. be under two heads :—

- (i) The representation of the Shareholder Members in Local District Advisory Councils in the six or more Area Co-operative Councils, in the eight or more Zone Co-operative Councils, and in the Central Co-operative Council of England and Wales.
- (ii) The Executive and Technical Management of the Co-operative Society Ltd. of England and Wales be by a Central Board of Management and eight or more Zone Boards of Management responsible to the Central Board of Management, and six or more Area Boards of Management responsible to the Zone Boards of Management.

Charts showing the proposed organisation of The Co-operative Society Ltd. of England and Wales are given on pages 316-318.

Organisation

The following is a more detailed outline of the organisation under these two heads—

(i) REPRESENTATION OF THE SHAREHOLDER MEMBERS. SHAREHOLDERS' CO-OPERATIVE COUNCIL

I will deal with the first head—the organisation of the Shareholder Members or consumers' representation, which is the outstanding feature of the Co-operative Movement, and my aim is to secure for them the fullest representation and influence in—

- (a) The Local District Advisory Co-operative Councils.
- (b) The six or more Area Co-operative Councils.
- (c) The eight or more Zone Co-operative Councils.
- (d) The Central Co-operative Council of the Shareholders in England and Wales.

I. THAT Local Advisory Councils be elected in each local district, and be the link from the Shareholder Member to the six Area Co-operative Councils in the zone.

As a first step it would probably be advisable to elect the local committees of the individual societies to these local councils.

II. THAT six Area Co-operative Councils be elected by the Shareholder Members of the Area yearly, and that these councils should comprise six or more members.

Until the organisation is running, it might be necessary to have larger Area Councils to enable outlying areas to be represented.

III. THAT the Area Co-operative Councils meet quarterly to receive the Report of the Area Board of Management.

The Area Councils would be the link with the Zone Co-operative Councils in the eight zones of England and Wales.

IV. THAT the Zone Co-operative Councils be elected by the Shareholder Members of the Zones yearly, or alternatively by the elected Area Councils, and that there be a full-time chairman and 12 or more part-time members.

Until the organisation is running, it might be necessary to have larger Zone Co-operative Councils to enable areas to be fully represented.

V. THAT the Zone Co-operative Councils meet the Zone Board of Management half-yearly to receive their Report.

The chairman, as a full-time member of the Zone Co-operative Council, would keep in close touch with the Zone Board of Management.

VI. THAT the Central Co-operative Council be elected by the Shareholder Members of each zone, or alternatively by the elected Zone Councils yearly, and that there be a full-time chairman and 16 or more part-time members.

Until the organisation is running, it might be necessary to have a larger Central Council, to enable zones to be fully represented.

VII. THAT the Central Co-operative Council meet the Central Board of Management half-yearly to receive their report.

The chairman, as a full-time member of the Central Co-operative Council, will keep in close touch with the Central Board of Management.

VIII. THAT an Annual General Meeting of the Shareholder Members of each Zone be held yearly to receive—

- (a) The Report of the Central Co-operative Council.
- (b) The Report of the Central Board of Management.
- (c) The Balance Sheet and Accounts of The Co-operative Society Ltd. of England and Wales.

and to appoint Delegates to attend the Annual General Meeting of the Shareholder Members of The Co-operative Society Ltd.

IX. THAT an Annual General Meeting of the Delegates of the Shareholder Members of The Co-operative Society Ltd. should be held yearly to receive—

- (a) The Report of the Central Co-operative Council.
- (b) The Report of the Central Board of Management.
- (c) The Balance Sheet and Accounts of The Co-operative Society Ltd. of England and Wales.

X. THAT the Central Co-operative Council be the link between The Co-operative Society Ltd. of England and Wales and The Co-operative Union Ltd.

(ii.) EXECUTIVE AND TECHNICAL MANAGEMENT

I will next deal with the second head—the organisation of the Executive and Technical Management of The Co-operative Society Ltd. of England and Wales.

Central Board of Management

I. THAT the Management of The Co-operative Society be by a Central Board of Management incorporating the retail and the wholesale and the manufacturing organisation in England and Wales.

This body will be responsible to the Central Co-operative Council and to the Shareholder Members for the management of the integrated organisation in England and Wales. It is essential to have such a body to meet the competition of retail wholesale and manufacturing combines.

II. THAT a Central Board of Management consisting of a full-time chairman and 10 or more full-time technical directors be responsible for the management of the society.

III. THAT the chairman and the first Central Board of Management will be appointed by the Central Co-operative Council, and will retire in rotation yearly. Their re-appointment and vacancies filled up during the year will fall to be confirmed by the Central Co-operative Council at the Annual General Meeting of the Shareholder Members.

Chairman of Central Board of Management

The chairman would be responsible for the co-ordination of the management of The Co-operative Society and would be the link between the Central Board of Management, the Zone Boards of Management and the Area Boards of Management. It might be necessary to appoint a deputy chairman who would assist the chairman in his duties.

Central Organisation

The Central Board will be responsible for—

- (a) The organisation of the Central Headquarters and Departments.
- (b) The organisation and co-ordination of the Zones under the Zone Board of Management, and of the Areas under the Area Board of Management.

The Central organisation will comprise—

Departments for Finance and Administration.

Operation Department to deal with organisation of Specialist Divisions for the retail wholesale and manufacturing.

Departments to deal with transport and special services.

Departments to deal with special committees—home and overseas co-ordination.

Finance and Administration

A director will be in charge of these departments, and will be responsible to the Central Board of Management.

Finance Department

The Finance Department will co-ordinate the whole of the finances of the organisation including the Zone finances and the Area finances, the finances of subsidiary companies, the finances of The Co-operative Bank which will be operated as a Bank and a separate unit, and their interest in the finances of the E. & S. Joint Society and The Co-operative Insurance Society (jointly owned).

This Department will focus the finances for the future development of the retail, wholesale and manufacturing for England and Wales.

The capital of the Movement in England and Wales is provided by the Shareholder Members in share capital and loan capital, and by reserves set aside out of surplus earnings, all of which is at call or short notice except reserves.

The capital is invested to a large extent in heritable property, shops, stores and stocks of merchandise throughout the areas, which of course are not realisable to a large degree at call.

IV. THAT a special committee of the new society along with financial experts be set up to review the financial structure, with a view to providing in the future the fullest protection and security to the Shareholder Members for their share capital.

Administration Department

The Administration Department will be responsible to the Central Board of Management for Headquarters Administration, for the co-ordination of the Zone administration, and for the Area administration.

Operation Department

This Department covers Co-operative consumer products and services for the Co-operative Shops and Department Stores in England and Wales.

The organisation in England and Wales of an Operation Department with 12 or more Specialist Divisions of Chain Stores and Department Stores covering groceries and provisions and other food products, dry goods and other services with Co-operative expert

management in all divisions of the Central Management, the Zone Management and the Area Management is one of the major Recommendations to enable the Movement to meet the competition of large combines in each of the divisions.

The retail service units include the following consumer facilities, which have to be allocated into the 12 or more Specialist Divisions—

Food—

Bread and Bakery.
Butchering.
Confectionery.
Dairy.

Fish.
Fruit and Vegetables.
Grocery and Provisions.
Hotels, Restaurants and Catering.

Dry Goods—

Books and Papers.
Chemists and Opticians.
Clothing, Drapery and Outfitting.
Footwear.
Furniture and Fittings.
Garages and Funeral Undertaking.

House Furnishing, Carpets and Linoleum.
Ironmongery and Hardware.
Laundries, Cleaning and Dyeing.
Radio and Electric.
Tobacco, Cigarettes and Smokers' Products.

The Department will be divided into Specialist Divisions covering these facilities, so that England and Wales have, say, 12 or more groups of Specialist Chain Stores covering these consumer services. Grocery and provision shops are the main part of the Co-operative services in England and Wales at present, with other food shops in many cases alongside.

The first Specialist Division will be Grocery and Provisions Division, with divisions covering the other food products, and divisions covering dry goods products, corresponding in many cases with competitive chain stores. There may be certain overlapping in some products sold in more than one division, but each division will co-operate with the other divisions in this, and in the Department Stores covering various division products.

The co-ordination of the management of the Department Stores will require special consideration.

The object is to operate each Specialist Division of Chain Shops and Stores such as, say, the Grocery and Provisions, as the most efficient unit in England and Wales from the point of view of shop position, shop window display, choice of product, quality, service and price. This efficiency will cover every like shop in England and Wales. This organisation and efficiency will apply likewise to each of the other Specialist Divisions.

Each Specialist Division is responsible for retail, wholesale and manufacturing resources of its Division for England and Wales.

The relative importance of the retail or the wholesale or the manufacturing including raw materials, varies in each division, but in no division is the integrated retail, wholesale and manufacturing more important than in the food trades where it represents 75% of the £900-million of sales turnover of retail societies.

Each Specialist Division will have Sub-Departments for raw materials, bulk purchasing, merchandise, manufacturing, sales, and distribution for England and Wales.

The AIM of this organisation is to ensure—

THAT the full weight of the purchasing power of "retail" be used to control the wholesale purchases in the world markets and to manufacture, if it is so desired, a proportion of consumer products from, if necessary, the raw materials through the various stages and distribute the products to the co-operative consumer. It is for the integrated organisation to decide which products are to be so treated. It is not essential to so handle 100% of such products, but the manufacturing unit should manufacture at as near as possible 100% of its capacity.

THAT the full weight of the selling power of "retail" should be used to enable sales promotion and advertising to co-operate in bringing the consumer products before the co-operative public so that the products advertised are available in all retail Chain Stores, thus enabling advertising to play its full part in sales promotion.

Directors of the Central Board of Management will be in charge of each of these Specialist Divisions, and will be responsible to the Central Board of Management.

Transport and Special Services

A director will be in charge of departments for the Central transport and Specialist services of Central Headquarters.

Home and Overseas Co-ordination

A director will be in charge of these Departments and will act on the boards of home and overseas subsidiaries, and on the joint E. & S. boards.

The directors of the Central Board will co-operate with the directors of the Zones and the Areas in their corresponding departments or divisions.

Individual directors of the Central Board will not have functional control over Zone directors or Area directors or management.

Directives from the Central Board will be by the Central Board as a body to the Zone Board as a body through the chairman of the Central Board to the chairman of the Zone Board, or as the Central Board may direct.

Zone Board of Management

I. THAT England and Wales will be divided into eight or more Management Zones :

- (i.) Northern.
- (ii.) North-Eastern.
- (iii.) North-Western.
- (iv.) Midland.
- (v.) Southern A.
- (vi.) Southern B.
- (vii.) South-Western.
- (viii.) Western.

II. THAT each Zone will have a Zone Board of Management consisting of a full-time chairman and 10 or more full-time technical directors.

III. THAT the Zone Board will be responsible for the management of the Zone as laid down by the Central Board scheme of management for the Zone.

The chairman of each Zone would be responsible for the co-ordination of the management of the Zone, and the link between the Central Board of Management and the Area Board of Management. It might be necessary to appoint a deputy chairman who would assist the chairman in his duties.

The Zone Board will be responsible for—

- (a) The organisation of Zone Headquarters and Departments.
- (b) The organisation and co-ordination of the areas under the Area Board of Management.
- (c) The organisation and co-ordination of the Federations of the Zones.

The Zone Organisations will comprise—

Departments for Finance and Administration.

Operation Department to deal with organisation of Specialist Divisions for the Shops and Stores.

Departments to deal with transport and special services.

Finance and Administration

A director will be in charge of these Departments and will be responsible to the Zone Board of Management.

Finance Department

The Finance Department will co-ordinate the whole of the finances of the Zone, and the Area finances of the Zone.

Administration Department

The Administration Department will be responsible to the Zone Board of Management for Zone Headquarters administration and for the co-ordination of the Area administration.

Operation Department

This Department covers Co-operative consumers' products and services for the Co-operative Shops and the Department Stores in the Zone.

The retail service units include the consumers' facilities which have to be allocated into 12 or more Specialist Divisions, and the organisation of the Zone is as outlined in the Central Board of Management, Operation Department (pp. 306-307).

Directors of Zone Boards of Management will be in charge of each of those Specialist Divisions and will be responsible to the Zone Board of Management.

Transport and Special Services

A director will be in charge of Departments for Zone transport and special services of Zone Headquarters.

The directors of the Zone Board will co-operate with the directors of the Areas in their corresponding Departments or Divisions.

Individual directors of Zone Board will not have functional control over Area directors or management.

Directives from the Zone Board will be by the Zone Board as a body to the Area Board as a body, through the chairman of the Zone Board to the chairman of the Area Board or as the Zone Board may direct.

Area Board of Management

I. THAT Zones of England and Wales will be divided into six or more Management Areas.

II. THAT each Area will have an Area Board of Management consisting of a chairman and six or more full-time directors.

III. THAT the Area Board be responsible to the Zone Board for the management of the Area as laid down by the Zone Board scheme of management for the Area.

This decentralisation is essential to provide the day-to-day management. Each Area will have a sales turnover of around £20,000,000 and shareholder membership of around 200,000 with the exception of large city areas.

Functional control of the Area Management will be by the delegation of the Area Board of Management to executives and managers.

Chairman

The chairman of the Area Board of Management will be responsible for the co-ordination of the management of his Area, and will be the link between the Zone Board and the Area Board of Management.

Area Organisation

The Area Organisation will comprise Departments to deal with—

- (a) Finance and Administration of the Area including Personnel.
- (b) Operation Department to deal with the organisation of Specialist Divisions of Shops and Stores.
- (c) District Transport.

Finance and Administration

An Area director or executive will be responsible for this Department to the Area Board of Management.

Operation Department

This Department covers Co-operative consumer products and services for the Co-operative Shops and Department Stores in the Area.

The retail service units include the consumers' facilities, which have to be allocated into the 12 or more Specialist Divisions, and the organisation of the Area is in line with the organisation as outlined in the Central Board of Management, Operation Department (pp. 306),

and, in addition, local manufacturing units such as aerated waters, ice cream, local bakery, local creamery and perishable products for direct supply to Specialist Stores in Areas.

This Area Operation Department will be divided into Specialist Divisions covering facilities, so that the Area has 12 or more groups of Specialist Chain Stores covering these consumer services.

Grocery and provision shops are the main part of the Co-operative service in the Areas at present, with other food shops adjoining.

The *first* Specialist Division will be Grocery and Provisions with divisions covering the other food products, and divisions covering dry goods products.

There may be a certain amount of overlapping in some products sold in more than one division, but each division will co-operate with the other divisions in this and in the Department Stores covering other division products.

Each Specialist Division will have Sub-Departments for sales promotion, purchasing and merchandise for the Area.

Area directors will be in charge of each of these Divisions, and will be responsible for the detailed management to the Area Board of Management.

Area Transport

An Area director or executive will be responsible for this Department to the Area Board of Management, and will co-ordinate the transport for other departments of the area.

APPENDIX "F"

ENGLAND AND WALES: PROCEDURE BY SIX STAGES

The procedure to carry into effect the organisation of The Co-operative Society Ltd. of England and Wales into an integrated retail, wholesale and manufacturing unit differs very little in principle from the procedure for The Scottish Co-operative Society Ltd. except that it requires much more preparatory work in connection with the sub-division of England and Wales into eight zones and the various areas in each zone, and the necessary building up of the two-tier structure of the organisation—

- (i.) The representation of Shareholder Members in the Councils.
- (ii.) The Executive and Technical Boards of Management.

The FIRST stage is the legal preparation of the Constitution, Rules and Regulations of The Co-operative Society Ltd. of England and Wales, and registration of the society.

The SECOND stage is the setting up of the structure of organisation of The Co-operative Society Ltd. of England and Wales under the two heads :—

- (i.) The representation of the Shareholder Members in the Local District Advisory Councils, in the six or more Area Councils, in the eight or more Zone Councils, and in the Central Co-operative Council, and in the election of the first representatives.
- (ii.) The Executive and Technical Boards, to form the Central Board of Management, to form the eight Zone Boards of Management, to form the six Area Boards of Management in each Zone, and the appointment of the first Boards.

The THIRD stage is the absorption of the Co-operative Wholesale Society Ltd. at a date to be fixed, into The Co-operative Society Ltd. of England and Wales by a transfer of engagements.

The FOURTH stage is the transfer of engagements by the individual retail societies to The Co-operative Society Ltd. of England and Wales at a date to be fixed.

The FIFTH stage is the bringing into operation of the new organisation at a date to be fixed which will mean a transfer of part of the wholesale organisation to the Zone organisation. The responsibility will then fall on the Central Board of Management to continue the old organisation where it is deemed necessary until the new organisation is in full operation.

The SIXTH stage is the gradual long-term development into Specialist Divisions.

To carry into effect the first and second stages it is suggested that joint meetings be held in each Zone of representatives of the retail societies in England and Wales, and representatives of the directors of The Co-operative Wholesale Society Ltd.

At these meetings it is suggested that—

- (a) A small legal committee of, say, three be set up to carry out Stage 1. (This would be the same committee for the Zones.)
- (b) For each Zone a larger committee (but not a large one) be set up to carry out Stage 2.

These committees would report back to a further joint meeting in each Zone.

A joint meeting of representatives of the eight Zones will then be held, and if the reports by the special committees are adopted, meetings would be held of the Shareholders of The Co-operative Wholesale Society Ltd. and the Shareholders of the individual retail societies, at which the necessary resolutions would be put forward to carry into effect Stages 3 and 4 and to fix a date.

On the passing of these resolutions by the requisite majorities, Stage 5 would automatically come into operation on the date fixed, and Stage 6 commence but is a gradual long-term development.

The following notes are put forward for the consideration of the committees—

It is suggested that the first Local District Advisory Councils should be the present committees of each retail society.

It is suggested that the first Areas should normally be from 150,000/200,000 Shareholder Members, but in densely populated Areas they may be larger.

It is suggested that first Area Co-operative Councils should be made up of one member for each society with over 10,000 members, two for each society with over 30,000 members, three for each society with over 60,000 members, four for each society with over 100,000 members, and with necessary adjustments when large societies, maybe an area, or when they are adjusted into separate areas, and that societies with under 10,000 members jointly have a corresponding number of members.

This would give first Area Councils in each Zone of approximately, in total, 70/80 members, the members to retire in each Area by rotation and be elected annually by Shareholder Members in each Area.

It is suggested that the first Zones should be normally from 1/1½-million Shareholder Members, but in densely populated areas the numbers in a zone may be over 2-million and in sparsely populated areas the number in the Zone may be under 1-million.

It is suggested that the first Zone Co-operative Council should be made up from each Area of one member for each 100,000 Shareholder Members. This would give first Zone Councils of 12/15 members with a full-time chairman.

The members of the Zone Co-operative Councils will retire by rotation annually, and will be elected by the Area Co-operative Councils or the Shareholder Members of the Areas of the Zone.

It is suggested that the first Central Co-operative Council of England and Wales should be made up from each zone of a member for each Zone, and one additional member from each Zone with over 1½-million Shareholder Members.

This will give a first Central Co-operative Council of 11/12 members with a full-time chairman, and perhaps deputy chairman to be appointed by the Central Co-operative Council.

The members of the Central Co-operative Council of England and Wales will retire by rotation, and will be elected by Zone Co-operative Councils annually.

It is suggested that the first Central Board of Management should consist of—

- (a) One technical director from each Zone and one additional from each Zone with over 1½-million Shareholder Members.
- (b) The chairman and eight technical directors from The Co-operative Wholesale Society Ltd., but during the first period, the Board be appointed until the directors are reduced to eight members by automatic retirements or by prior arrangement or by compensation for loss of office.

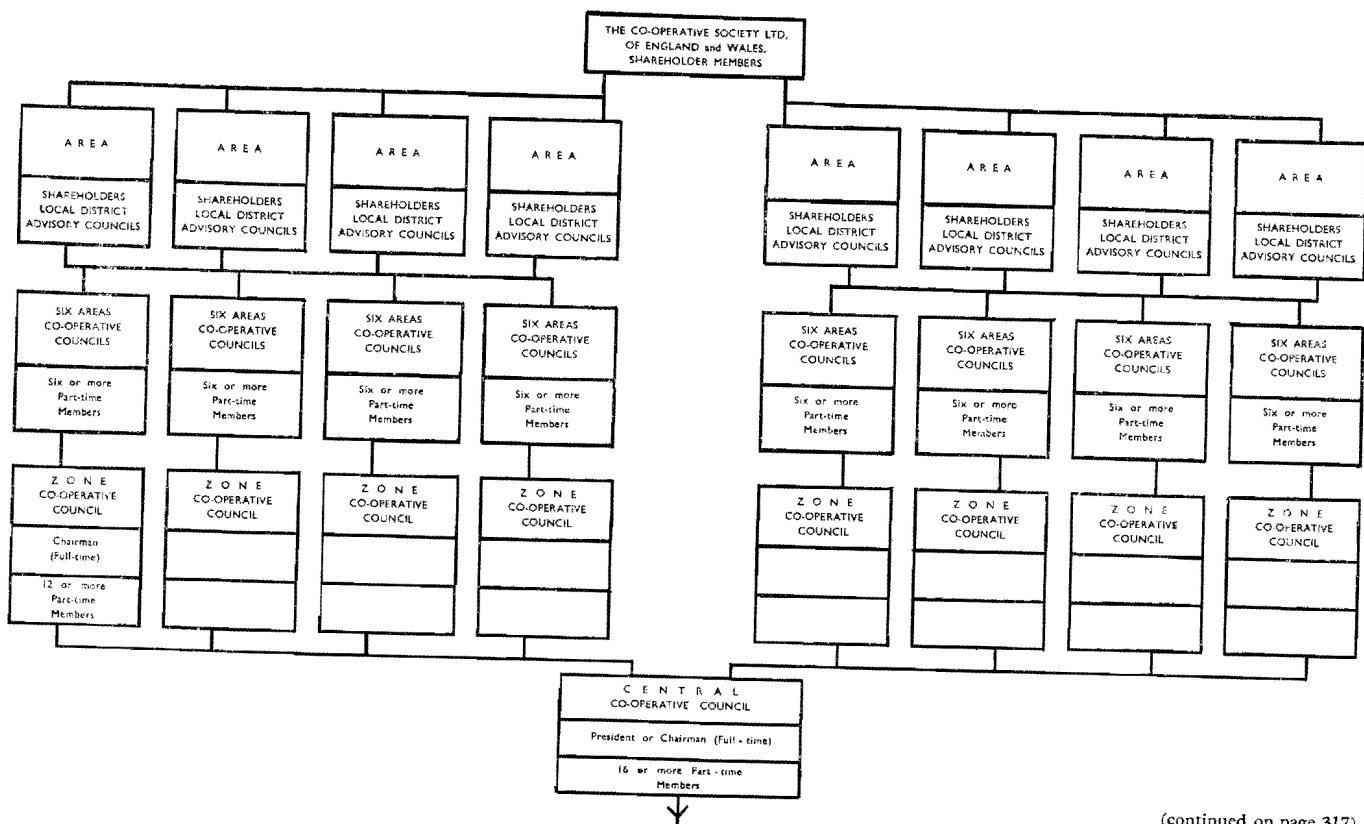
This would give a full-time Central Board of Management of 14/16 directors.

It is suggested that the directors of the Central Board of Management will retire by rotation, one-third annually. Their reappointment will fall to be confirmed by the Central Co-operative Council at the Annual General Meeting of Shareholder Members. Casual vacancies filled during the year by the Board will also fall to be confirmed by the Council at the Annual General Meeting.

APPENDIX "G"

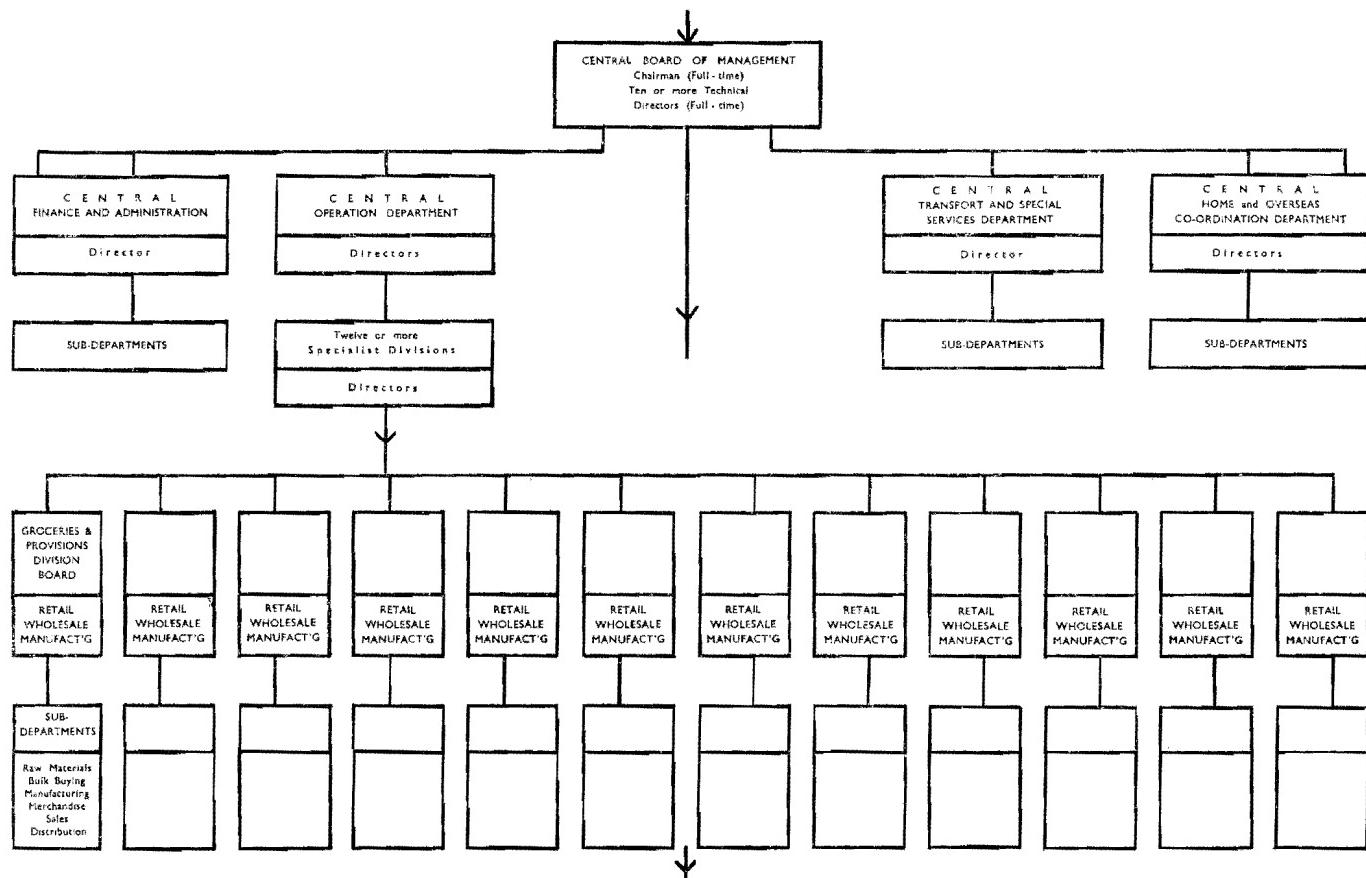
STRUCTURE OF ORGANISATION OF THE CO-OPERATIVE SOCIETY LTD. OF ENGLAND AND WALES

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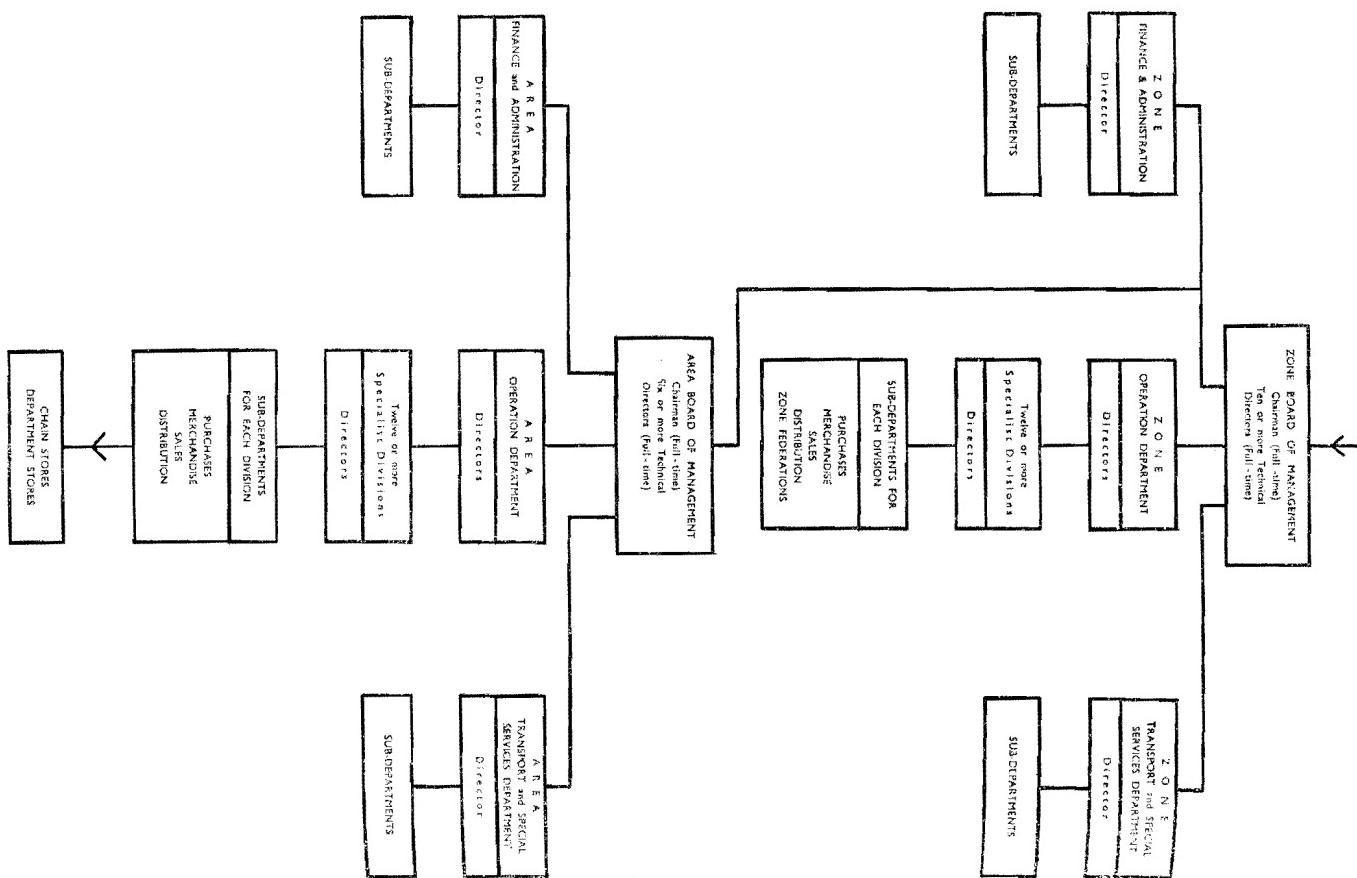


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STATISTICS OF RETAIL SOCIETIES IN SCOTLAND 1956

Areas	Members	Share Capital	Loan Capital	Reserves and Insurance Fund	Sales	Surplus after Interest on Capital	Surplus per £ of Sales
		£	£	£	£	£	
Edinburgh and East Scotland and Borders	236,197	4,435,368	378,606	1,965,407	27,699,876	2,255,868	1/7.57
Glasgow and West..	428,565	6,139,685	2,743,292	1,836,507	39,036,592	3,034,867	1/6.66
Ayrshire and South-Western..	125,676	3,475,795	827,548	507,215	13,040,115	964,780	1/5.75
Lanark and Central	128,985	3,527,226	543,568	674,841	15,731,529	1,474,527	1/10.49
Fife, Stirling and Falkirk	219,964	5,498,601	989,019	1,384,591	27,363,788	2,628,622	1/11.05
Southern	226,584	1,836,872	697,372	713,717	20,690,393	1,735,423	1/8.13
	1,365,971	24,913,547	6,179,405	7,082,278	143,562,293	12,094,087	1/8.22

APPENDIX "H"

STATISTICS OF RETAIL SOCIETIES IN ENGLAND AND WALES, AND SCOTLAND, 1956

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Zone	Number of Societies	Members	Share Capital	Loan Capital	Reserves and Insurance Fund	Sales	Surplus after Interest on Capital	Surplus per £ of Sales
Northern	101	962,817	£ 24,858,838	£ 4,503,986	£ 1,967,720	£ 85,695,646	£ 6,910,962	1/7.35
North-Eastern	140	1,312,387	30,268,461	3,835,125	3,253,209	99,165,462	6,002,015	1/2.52
North-Western	186	1,915,007	44,137,474	8,299,507	4,608,088	129,911,714	6,511,977	1/0.03
Midland	115	1,927,268	43,925,739	7,431,559	5,837,455	151,728,805	10,049,658	1/3.89
Southern	96	3,500,814	55,967,209	11,012,672	7,378,396	214,882,699	11,318,208	1/0.64
South-Western	54	535,950	10,090,375	2,107,473	1,740,269	36,710,206	1,646,635	10.76
Western	57	396,988	8,919,198	2,525,077	909,331	35,685,376	2,060,817	1/1.55
	749	10,551,231	218,167,294	39,715,399	25,694,468	753,777,908	44,500,272	1/2.16
Scotland	183	1,365,971	24,913,547	6,179,405	7,082,278	143,562,293	12,094,087	1/8.22
	932	11,917,202	243,080,841	45,894,804	32,776,746	897,340,201	56,594,359	1/3.14